



# ***Daily Report***

---

## **China**

FBIS-CHI-95-142  
Tuesday  
25 July 1995

This report may contain copyrighted material. Copying and dissemination is prohibited without permission of the copyright owners.

# Daily Report

## China

FBIS-CHI-95-142

### CONTENTS

25 July 1995

**NOTICE:** An \* indicates material not disseminated in electronic form.

#### NATIONAL AFFAIRS

##### Political & Social

New Regulations Require Permits for Transient Workers [ <i>CHINA DAILY</i> 25 Jul]	1
*Article Views Party Activities in Joint Venture [ <i>SIXIANG ZHENGZHI GONGZUO YANJIU</i> 8 May]	1

##### Science & Technology

Construction To Begin on 7,000 Km Fibre-Optic Cable [ <i>CHINA DAILY</i> 25 Jul]	4
First High-Altitude Engine Test Simulator Built [ <i>XINHUA</i> ]	5

##### Military & Public Security

Sources Doubt PLA Could Successfully Attack Taiwan [ <i>Hong Kong SOUTH CHINA MORNING POST</i> 25 Jul]	5
Paracel Troops To Receive Desalination Equipment [ <i>XINHUA</i> ]	6
*Navy Operational Capability, Requirements Reviewed [ <i>Hong Kong KUANG-CHIAO CHING</i> 16 Apr]	6

#### ECONOMIC AFFAIRS

##### General

Town Construction To Absorb Surplus Rural Labor [ <i>XINHUA</i> ]	10
High-Yield Oil Well Drilled in East China Sea [ <i>XINHUA</i> ]	10

##### Finance & Banking

Bank To Boost Supply of Development Capital [ <i>XINHUA</i> ]	10
Central Bank Successful in Reducing Money Supply [ <i>XINHUA</i> ]	11
*Scholar Views State of Financial System Reform [ <i>JINGJI YANJIU</i> 20 May]	11
*Article Views Impact of Foreign Banks in Dalian [ <i>JINRONG SHIBAO</i> 11 Jun]	19
*Overseas Business of Communications Bank Viewed [ <i>CANKAO BAO</i> 1 Jun]	21
*Bank Researcher Views Further Financial Reform [ <i>GUANLI SHIJIE</i> 24 May]	22

##### Foreign Trade & Investment

Jiang Zemin Meets Japanese Trade Mission [ <i>Tokyo KYODO</i> ]	27
Meets Corporation President [ <i>XINHUA</i> ]	27
Planners Assess Shell Joint Venture Proposal [ <i>XINHUA</i> ]	27
Record Steel Exports Achieved in First Six Months [ <i>CHINA DAILY</i> 25 Jul]	28
New Regulations To Curb Counterfeiting Announced [ <i>XINHUA</i> ]	29
*MOFTEC Official Views Yen-Debt Issue [ <i>GUOJI MAOYI</i> May]	29

##### Agriculture

Li Lanqing Urges Stepped Up Antidrought Efforts [XINHUA] .....	31
Bank Grants Loans to Areas Hit by Flood, Drought [CHINA DAILY 25 Jul] .....	32
Agreements Signed To Facilitate Importing Animals [CHINA DAILY 24 Jul] .....	32
*Sichuan Reports Wheat, Rapeseed Storage [SICHUAN JINGJI RIBAO 15 Jul] .....	33

## REGIONAL AFFAIRS

### East Region

Shandong Governor Views County Enterprise Reform [Jinan Radio] .....	34
Zhejiang Governor To Improve Economic Growth [CHINA DAILY 24 Jul] .....	35

### Northwest Region

*Ningxia People's Procuratorate Work Report [NINGXIA RIBAO 11 May] .....	35
--	----

## PRC MEDIA ON TAIWAN AFFAIRS

XINHUA Carries Report on Taiwan Commentary .....	38
Editorial Blames Li for Worsening Strait Ties [Hong Kong WEN WEI PO 21 Jul] .....	39

## TAIWAN

Navy Starts War Games Off Northern Coast [AFP] .....	41
Governor Sung Condemns Beijing Missile Tests [CNA] .....	42
Spokesman Calls for Resumed Cross-Strait Talks [AFP] .....	42
Authorities Urged To Stop Menacing Trawlers [CNA] .....	42
*Letter to Editor Reviews Spratly Islands Issue [Taipei HEIPAI HSINWEN 15 Apr] .....	43
*Li Teng-hui Discusses Key Issues With Academics [Taipei HEIPAI HSINWEN 29 Apr] .....	43
*KMT Politician Advocates De Jure Independence [Taipei HEIPAI HSINWEN 8 Apr] .....	44
Chiang To Attend APEC Ministerial Meeting [CNA] .....	45
Japan, U.S. Dominate Construction Contracts [CNA] .....	46
Austria Parliamentary Views Ties [CNA] .....	46
Italy To Improve Visa Processing [CNA] .....	46
Fifteen Countries Propose Support for UN Bid [CNA] .....	47
Central American Countries To Support UN Bid [CNA] .....	48
Chien Fu Views Importance of Ties With Mexico [CNA] .....	49
Minister Arrives in Panama 20 Jul [CNA] .....	49
Taiwan, Panama To Jointly Develop Trade Zone [CNA] .....	49
Insurance Leading Investment in Foreign Countries [CNA] .....	50

## HONG KONG & MACAO

### Hong Kong

Beijing, U.S. Urged To Settle Disputes Quickly [Hong Kong EASTERN EXPRESS 22-23 Jul] .....	51
Western Leniency With Beijing Criticized [Hong Kong EASTERN EXPRESS 22-23 Jul] .....	51
Beijing Unhappy With British List of Assets [Hong Kong EASTERN EXPRESS 22-23 Jul] ....	52
China Rejects Proposal To Hold Elections in 1996 [Hong Kong SOUTH CHINA MORNING POST 25 Jul] .....	52
Reportage Covers PWC Economic Panel Meeting .....	52
Meeting Held in Beijing [XINHUA] .....	52
Trade, Finance Urged [Hong Kong HONGKONG STANDARD 22 Jul] .....	53

Further Media Coverage of Appeals Court Bill .....	53
Efforts To Ensure Passage [ <i>Hong Kong SOUTH CHINA MORNING POST</i> 25 Jul] .....	53
Editorial Views Bill [ <i>Hong Kong SOUTH CHINA MORNING POST</i> 22 Jul] .....	54
Right of Abode Proposal in Breach of Basic Law [ <i>Hong Kong EASTERN EXPRESS</i> 24 Jul] ..	55
Disciplinary Forces Welcomed To Stay After '97 [ <i>Hong Kong EASTERN EXPRESS</i> 25 Jul] ..	55
Committee To Oversee 1997 Handover Celebrations [ <i>Hong Kong EASTERN EXPRESS</i> 24 Jul]	56
Government To Propose Localizing 'Secrets Act' [ <i>Hong Kong EASTERN EXPRESS</i> 25 Jul] ..	56
International Groups Status in Doubt After '97 [ <i>Hong Kong EASTERN EXPRESS</i> 25 Jul] .....	57
Hong Kong To Revise Endangered Species List [ <i>XINHUA</i> ] .....	57
Number of Child Drug Traffickers on Increase [ <i>XINHUA</i> ] .....	57
Radar Station Contract Awarded to Airport [ <i>XINHUA</i> ] .....	58

## Macao

Supreme Court Head Holds Interview [ <i>Hong Kong SOUTH CHINA MORNING POST (THE REVIEW)</i> 22 Jul] .....	58
Government Warns Against Vote-Buying Scheme [ <i>Hong Kong HONGKONG STANDARD</i> 22 Jul] .....	59
Foreign Trade Deficit Continues To Drop [ <i>XINHUA</i> ] .....	60



## Political & Social

### New Regulations Require Permits for Transient Workers

HK2507084595 Beijing CHINA DAILY in English  
25 Jul 95 p 3

[By Cao Min: "Transients Need Job Permits in Beijing"]

[FBIS Transcribed Text] Beijing has intensified efforts to ensure that rural workers have job permits and registration.

Beijing Municipal Government and its labour bureau issued 10 rules regulating transient labourers engaged in jobs or business. The rules took effect on July 15 and deal with the floating labour force's employment, household registration, family planning and house rentals.

According to these regulations, a farmer intending to work in the capital must obtain a permit from the local government of his hometown.

The employer also must register at the local labour department with all legal documents from the employee, including a personal ID card.

Sectors such as construction that are labour-intensive are allowed to recruit surplus farm workers.

But jobs suitable for local residents should be tightly held in recruiting the rural labourers.

Most job opportunities should be open first to local residents and laid-off workers in the capital city, the government believes.

The city's labour bureau should regularly make public the type of jobs available for migrant labourers each year in accordance with the needs of the city's employment and re-employment projects.

Floating farmers will not be given jobs such as cashier, accountant, computer operator, dispatcher, ticket seller, copy designer, examiner and attendant at major hotels this year.

Beijing has a transient population of about 3.3 million, and most are rural labourers from Hebei, Zhejiang, Henan, Anhui, Sichuan, Jiangsu and Shandong provinces.

That is a significant number for a city with a population of about 9 million, officials with the city's labour bureau said.

As the country's economy becomes market-oriented, more and more people are turning from farmwork towards big cities like Beijing, Shanghai and Guangzhou.

About 40 per cent of the construction workers in the capital city are migrant rural labourers.

They've played an important role in most building projects- including Beijing West Railway Station and a dozen flyovers downtown.

However, the heavy flow of migrant labourers has exerted pressure on Beijing traffic, water and power supplies, say officials and the subway is 40 per cent overloaded.

The market is also feeling the pressure from the surplus labour: laid-off workers who seek jobs in the service sector face heavy competition.

Public security bodies estimate that 46 per cent of criminal cases in Beijing last year involved transients.

### \*Article Views Party Activities in Joint Venture

95CM0327A Beijing SIXIANG ZHENGZHI  
GONGZUO YANJIU [RESEARCH IN  
IDEOLOGICAL-POLITICAL WORK] in Chinese  
8 May 95 No 5, pp 32-33

[Article by Wu Yuming (0702 3768 2494), party branch secretary of Changjie Electronics Corporation, Changzhou: "Joint Ventures But Not Going Capitalist—Being Good Masters of the Corporation"]

[FBIS Translated Text] Our company, the Changzhou-based Changjie Electronics Corporation, is a Sino-foreign joint venture with investments from three parties: Changzhou City No 2 Radio Component Factory, China National Electronics Import and Export Corporation, and Hong Kong Chengmei Industries, Limited. We now have 156 employees, a general manager from the Hong Kong contingent, and two assistant general managers from the Chinese side. Our party and Communist Youth League [CYL] organizations and trade union were organized at the same time as the corporation. In the five-plus years since the corporation was established, the party branch has, based on the characteristic state of mind of joint-venture employees, painstakingly fostered and done its utmost to bring into full play the employees' sense of being the masters of the corporation. These efforts have been rewarded by a 70-percent increase in the corporation's economic returns each year. Notable results, meanwhile, have also been achieved in building our spiritual civilization.

### Joint Venture But Not Going Capitalist, Creating the Image of Masters

Joint venture enterprises are a new form of economic organization whose economic nature, operational mechanism, management model, and work approach all differ drastically from those of state enterprises. Naturally, this unusual environment will, in varying degrees, rub against the ideology, notions, ethics, and mentality of

from the foreign contingent was beside himself with anxiety. The moment had come. The corporation's party branch called on all staff members and workers. Now was the time to do their stuff, demonstrate what being the masters is all about, and show their pride as a people. Without hesitation, the corporation equipment director, comrade Xia Jinfa, a Communist Party member, stepped forward. With Xia leading, a troupe of a dozen or so engineers, technicians, and master workers pulled out the reference materials and data they had meticulously gathered over the years. With courage, insight, and a pioneering spirit befitting masters, they completed the overhaul job in just five days at a cost of a little over 2,000 yuan, thus enabling our corporation to continue production without further trouble. At a victory celebration feast the corporation held later, the Hong Kong general manager triumphantly raised his glass to toast the occasion, saying, "Chinese workers truly are impressive!" From that incident on, overhauling this type of equipment has never again posed a problem, a fact which only added to both the Chinese and foreign sides' confidence that the joint venture would succeed.

#### **Joint Ventures Requires Joint Effort; Expanding the Spirit of Masters**

Not long after our joint-venture enterprise began operations, some employees resisted cooperating with foreign parties on the grounds that it is the nature of capitalists to exploit workers and that this nature is next to impossible to change. Employees felt especially uncomfortable when they saw what a considerable share of profits the foreign bosses got at year's end. This wrinkle in their thinking caused disharmony in their action. The party branch felt that as long as these ideas persisted among employees, running a joint-venture enterprise would be an uphill battle, as would trying to develop their spirit as masters. To deal with this problem, we launched in-depth efforts to educate all Chinese employees on the specific point that "we should join efforts for joint ventures and expand our spirit as masters." First, we organized the employees in becoming familiar with the party's policy on using foreign capital, telling everyone that investing with foreign groups means three things for us: One, it allows us to use foreign capital. Two, it brings advanced technology and equipment into our country. Three, it enables us to learn advanced management experience from abroad. This is very beneficial to developing this country's productive forces, as well as raising our people's standard of living. We next let our employees understand that although our Changjie Corporation is made possible by joint investments, 75 percent of the interests go to the Chinese side. We also made clear that the employees of our joint venture are still part of the socialist work force and that success

in running our joint venture is a responsibility every worker shares. As for the fact that the foreign side gets 25 percent of the profits, that is required by state policy and should be considered legal income. We should, with hearts and minds befitting our role as masters, take the initiative to cooperate and work well with foreign personnel. We must ensure that we not only invest jointly, but work cooperatively as well, while, at the same time, going all out to expand the spirit of masters.

As soon as our employees shifted their attitudes, the entire face of the corporation changed. There suddenly appeared a moving situation of "Chinese and non-Chinese working as one, seeking in common the development of the enterprise." To satisfy customer demands and seize opportunities provided by the market, the corporation kept raising its production quota. Its economic indexes multiplied again and again. In addition to accepting a trade union proposal of linking wages with corporation profits (this has been put into effect), the employees courageously shouldered heavy tasks without so much as a frown. Now among the employees, expanding the spirit of masters and feeling honored to offer more to the corporation has become the order of the day. One young technician, Zhu Ximing, has performed amazing feats for the corporation and won praise from the entire staff by coming out with new products year after year in line with new market conditions. Another example is the corporation production coordinator, an outstanding Communist Party member named Xiao Lixin, who is afflicted with numerous medical conditions. He has had head surgery and often suffers dull headaches. However, he lets none of this get in his way, singlemindedly throwing himself into his work instead. Once, when a stomach problem of his flared up again, the organization ordered him to go to the hospital to have it examined and treated. It was discovered that the pylorus of his stomach showed signs of pathological change. After doing laser surgery on him, the doctor admonished him to stay home and rest for at least two weeks and to eat only liquid food. But he stuffed the sick-leave note in his pocket and rushed straight from the hospital to the plant. He said: "I am a Communist Party member. For the sake of contributing more to my country, bringing more profits to my corporation, and producing more for my customers, I would gladly give my life if I have to." People now call him the "Changjie Ironman." It is this elite of the Changjie Corporation that together embody the quintessential spirit of the masters in the "Changjie people." Not only does the entire staff highly esteem such dedication, but the general manager from Hong Kong has also offered hearty praise, saying: "Every last employee of Changjie has the right stuff!"

### **Joint Ventures But Not Considering Money as the Only Goal; Maintaining the Masters' Rights and Interests**

Some employees revealed their single-minded pursuit of money right after they came to work at the joint-venture enterprise. One young worker put it this way: "I came to the joint venture enterprise mainly to make more money. I'll do whatever the foreign bosses want me to do as long as they pay me!" To deal with the minority of these "spiritually impoverished" people in our joint-venture enterprise, who are only greedy for financial wealth and have no regard for ideals or morals, we greatly stepped up our education about the socialist legal system and about life, values, and ethics. We made these people aware that people should not come to a joint-venture enterprise only for material wealth, but, more importantly, for spiritual uplift. We told them that not only should they do all they are legally permitted to protect their own material interests, but more so, they must do all that is within the bounds of law to protect their political and personal rights and their right to democracy.

Through the trade union, we fully played out our role as the bridge and link between the party and the masses, loyally representing employee interests and regularly listening to the general manager's reports about outstanding achievements in production and other operations. We deliberated over and made suggestions about critical matters such as corporation annual plans, development plans, major reform measures, renovation projects, and worker salaries, bonuses, and benefits. We sat in on board of directors meetings according to the regulations, conveyed worker suggestions and requests, aggressively strove to do concrete work for employees, and helped solve their problems. Over the past five years, we have worked hard to implement the "Regulations on Trade Unions of Foreign-Funded Enterprises in Jiangsu Province" and the "Trade Union Law" issued later. With strong support from the administrative authorities from the Chinese side, we provided effective oversight of enterprise implementation of the state laws and regulations regarding such issues as wages, labor protection, labor insurance, and the protection of rights and interests of female workers. We also supervised the use of corporation welfare funds.

In various ways and through different channels, the two assistant general managers from the Chinese side also spoke out for the employees, defending their legal rights and, in so doing, won the approval of the entire staff. In the more than five years of our work, we accomplished 35 specific actions on behalf of the employees, including organizing a group vacation to Hangzhou, solving coal gas problems, helping with moving expenses and

subsidizing private rents, improving working conditions and environments, increasing worker insurance, building new activity centers for workers, and formulating detailed regulations to protect the legal rights and interests of female workers. In short, we effectively protected the legal rights and welfare of the masters of the corporation. Moreover, we extended our concern to employees' families as well, insisting on making the "eight necessary visits." All this has ensured that our corps of employees are happy because there is a general positive mood in the corporation, they live in peace because their environments are nice, and they work contentedly because their status is assured. For three consecutive years, the corporation trade union was named a progressive "workers' home" and commended by the provincial Federation of Trade Unions. In gratitude, the broad masses of employees have remarked: "The leadership treats us as masters of this corporation, so we have to talk and act like masters, shoulder the responsibilities of masters, offer ourselves to Changjie," and make the joint venture enterprise a success."

### **Science & Technology**

#### **Construction To Begin on 7,000 Km Fibre-Optic Cable**

*HK2507075095 Beijing CHINA DAILY in English  
25 Jul 95 p 1*

[By Xie Liangjun: "7,000 km Cable Will Stretch From China to Singapore"]

[FBIS Transcribed Text] Construction will begin soon on a nearly-7,000-kilometre-long international fibre-optic cable to link China with Southeast Asian nations, official sources said.

The land cable, which starts in Shanghai and Guangzhou and ends in Singapore, will cross six countries—China, Vietnam, the Laos, Thailand, Malaysia and Singapore—said sources from China's Directorate General of Telecommunications (China Telecom) under the Ministry of Posts and Telecommunications.

The sources said yesterday that the terrestrial cable system project, the first of its kind directly linking China with these nations, will provide 30,000 digital telecommunications lines when it is completed in 1997.

At present, telecommunications links between China and these nations are via submarine cables or satellites.

Growing economic, trade and tourism ties among the countries have generated a greater demand for convenient telecom service.

Last year, China and Singapore initiated the construction of a transnational fibre-optic cable.



Telecommunications authorities from the involved nations have agreed that each country will construct the section of the cable in their territory.

The China section will cover Shanghai, Hangzhou, Nanchang, Changsha, Guilin, Liuzhou, Guangzhou, Nanning and Pingxiang cities.

There are fibre-optic cables linking Shanghai with Nanning and Guangzhou with Nanning.

China might expand transmission capacities of these two cables to connect with the Southeast Asian land cable.

China will surely construct a fibre-optic cable to link Nanning and Pingxiang in Guangxi Autonomous Region, which borders Viet Nam.

This Southeast Asian land cable will be the fourth international fibre-optic cable for China.

The first is the China-Japan submarine cable, which is now in use. The second is the China-ROK submarine cable, which is under construction and will be put into operation by the end of the year. The third is the Trans Asia-Europe fibre-optic cable linking China with Commonwealth of Independent States countries and some other European nations. It is being constructed, the Ministry of Post and Telecommunications said.

#### **First High-Altitude Engine Test Simulator Built**

OW2407160295 Beijing XINHUA in English  
1507, GMT 24 Jul 95

[FBIS Transcribed Text] Chengdu, July 24 (XINHUA) — China has successfully built its first high-altitude engine test simulator in Jiangyou, in southwest China's Sichuan Province recently.

The simulator, which is used to reproduce high-altitude conditions for the testing of turbojet and fanjet engines, which is vital to the development of the aviation industry, was developed by the Aviation Combustion Turbine Research Institute.

So far, only four countries, Russia, the United States, Britain, and France, have such advanced equipment.

#### **Military & Public Security**

##### **Sources Doubt PLA Could Successfully Attack Taiwan**

HK2507063495 Hong Kong SOUTH CHINA  
MORNING POST in English 25 Jul 95 p 10

[By Jasper Becker in Beijing: "Doubts Cast On Success Of Any Attack"]

[FBIS Transcribed Text] Western diplomats in Beijing are convinced China is ready to invade Taiwan if it declares independence but doubt whether its forces are

adequately equipped for the task. "It would be a most difficult military operation against forces which are better equipped and well motivated," a Western defence attache said.

The current missile tests are not believed to be part of large-scale military manoeuvres in preparation for an invasion but "a slap on the wrist", according to one Western analyst. Western military attaches, who have met in Beijing to discuss the missile tests, believe they were scheduled some time ago but the target was subsequently shifted closer to Taiwan.

China customarily holds military manoeuvres from April to early autumn culminating in a joint sea, land and air exercise. "These things take time to organise so they are not being held just to make a political point," an analyst said. However, the Chinese leadership has decided to seize the opportunity the tests presented to drive home its anger.

"Jiang Zemin, who heads the Military Commission, felt [President] Lee's visit was a setback, even a personal humiliation, so he welcomed the opportunity to show some steel," the analyst said. "They also feel that Hong Kong is in the bag now, so it is time to concentrate on Taiwan." The consensus among most analysts is that the People's Liberation Army (PLA) still lacks the minimum 3:1 advantage in key areas to launch a successful invasion of Taiwan. A naval blockade would also be difficult because it would mean attacking ships sailing under the flag of other countries.

However, parts of the PLA have been given modern equipment to create the equivalent of a mobile reaction force ready to take on the task. "Their equipment is getting better, the question is how long it will take them to learn to use it effectively," another analyst said. Despite the growing contacts between the PLA and the armed forces of other countries, it remains a highly secretive organisation. "They still do not even release basic information like maps. It is all classified. We invite outsiders to observe our military exercises but the Chinese never do this," a frustrated Western defence attache said.

Military guests are always brought to see the same unit, 196 Division based in Tianjin, which always goes through the same exercises. Despite the recent negotiations on non-proliferation, China's nuclear strength remains a mystery. While the other nuclear powers, especially the United States and Russia, are open about their arsenals China has never ended speculation on the numbers of its warheads. Not surprisingly, the diplomatic community is also completely in the dark as to what kind of missiles are currently being tested. China

possesses a full armoury ranging from the short-range ballistic missiles to smaller surface-to-surface missiles.

**Paracel Troops To Receive Desalination Equipment**  
OW2407123995 Beijing XINHUA Domestic Service  
in Chinese 0712 GMT 24 Jul 95

[By reporter Huang Caihong (7806 1752 5725)]

[FBIS Translated Text] Beijing, 24 Jul (XINHUA) — On the eve of 1 August Army Day, Jiangsu's Changzhou Energy Equipment General Plant is sending a newly developed high and new technology product, sea water desalination equipment, to the naval garrison stationed on Zhongjian Dao [0022 1696 1497], Xisha [Paracel], as a present.

The desalination equipment uses the world's advanced membrane separation technology, characterized by low energy consumption, high efficiency, simplicity, and convenience in operation. It can remove 99.2 percent of the salt content from sea water. After desalination, the water quality reaches state standards for drinking water. Once the equipment arrives on the island, the officers and men stationed there will be able to drink and use pure water.

#### **\*Navy Operational Capability, Requirements Reviewed**

95CM0276A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese 16 Apr 95  
No 271, pp 23-29

[Article by Li Yu-ling (2621 1342 0404): "Chinese Navy's Blue-Water Operational Forces"]

[FBIS Translated Excerpt] [Passage omitted]

#### **Brand-New "Sealed-Type" Frigate**

To cope with the nuclear, biological, and chemical (NBC) operations that could occur in a future war, at the beginning of the eighties a plan was put forward to build a "completely sealed-type" guided missile frigate. Completely sealed-type means that there is not a single porthole on the ship, iron grates are closed, and the ship's interior is completely isolated from the external world. Therefore, the ship can operate under NBC conditions without fear that its officers and men will be infected. This requires that the ship have a high degree of automation, and the entire ship must be air conditioned. Inside the ship there is no division into day and night; so there must be lighting, which makes a high demand on electric power. The "completely sealed-type" is now a popular ship design for the navies of the world's advanced countries.

Construction of the first completely sealed-type guided missile frigate, designated Type 053H2, began in April 1984 at the East Shanghai Shipyard in Shanghai municipality, and the ship was launched in December 1985. The first ship of this type was the Huangshi, No 535, and was designated the Huangshi-class.

For the Type 053H2's hull, the "long bridgehouse" design was used. Therefore, the usable space inside the ship was increased. According to what the Chinese military has revealed, the Type 053H2's "shipboard missiles, cannons, radar, motive power, and other equipment are all the results of advanced technology and modern scientific research, and there is a big improvement in the ship's operational capability." Moreover, the housing conditions for the ship's officers and men have been improved compared with those of previous Chinese warships. The designs of modern ships pay considerable attention to the housing conditions for officers and men.

The main military equipment on the ship is eight C-801 "Yingji 8" ship-to-ship guided missile launcher-capsules. The Yingji guided missile is the newest successfully developed second generation sea-skimming antiship guided missile, and is also called the "Chinese Communists Exocet."

#### **Jiangwei-Class Frigate**

The Jiangwei-class is the Chinese first guided missile frigate specially developed for antisubmarine warfare. The keel of the first ship of this class was laid in 1988, and as of now four ships of this class have been built, separately designated 539, 540, 541, and 542.

The Jiangwei-class frigate is of the central bridgehouse design; its length is about 115 meters and its standard displacement 2,250 tons. With a diesel engine as its motive power, the ship's speed is about 25 knots, a bit slow.

As an antisubmarine warship, the Jiangwei-class is equipped with a new six-tube launcher, which is believed to carry and launch the Chinese communist-developed Changying-1 (CY-1) antisubmarine guided missile. The CY-1's design is similar to that of the AS-ROC missile made by America's Honeywell Corporation, and is a rocket-assisted antisubmarine torpedo. At the stern of the Jiangwei-class is a helicopter pad and hanger that can carry one Zhi-9 helicopter. On the right and left sides of the main gun is a six-tube antisubmarine launcher. Used with the weapon is a bulbous-head echo sonar.

The antiship weapons include a dual 100-mm all-automatic turret and six C-802 ship-to-ship guided missile launchers set in front and behind and on



the two sides of the central funnel. The anti-aircraft weapons are four H/PJ76A twin 37-mm compact-type machine cannons. In addition, the ship is equipped with four U.S.-type SRBOCMk.33 six-tube passive jamming (chaff launchers [4613 3651 2320 1580 0892]).

The ship's electronic equipment includes air search radar, sea search radar, pathfinder radar, and a command control system.

#### **Special Arm Suited to Naval Operations**

The Chinese Marine Corps is a special arm suited to naval operations. The special nature of naval operations includes not only sea operations but also air and land operations. The Marine Corps is a combined land operations force that has undergone special amphibious training and that possesses amphibious attack and defense power. Being well acquainted with the Navy, the Marine Corps can coordinate with fleet forces in completing a land operation.

The Marine Corps is the important force for carrying out the Chinese Navy's land operations, and is a "strategic arm."

As the Navy's arm charged with landing operations, its missions include:

- Providing a land operations force for a fleet;
- Coordinating with a fleet in seizing and defending the Navy's forward bases, and taking part in the relevant land combat in a naval campaign;
- Coordinating with other service arms to develop tactics, techniques, and equipment for landing operations;
- Carrying out other missions and the coastal defense mission.

The Marine Corps missions as the advance force in landing operations are:

- Seizing and consolidating beachheads, wiping out the enemy at the beachheads and in places next to them, organizing landing duties, and ensuring that the Army's main force makes its landing and then continues to launch its offense in depth;
- Making surprise attacks and occupying the enemy's naval bases, seaports, and islands;
- Building beachhead protective zones and covering the landing force as it spreads out from the enemy coast.

The Marine Corps is regarded as one of the crack forces in the Chinese armed forces, and it receives international attention.

The organization of the Chinese communist Marine Corps is by "brigade" and not by "division," which is the

striking difference between it and the Army's infantry units. The next level below the brigade is the "battalion," and there is no "regiment" in the organization. It is believed that this organization was adopted because of the Chinese participation in an Army organization of the same type and its successful experiences.

A Marine Corps brigade organization includes infantry, artillery, armored troops, engineers, signal troops, reconnaissance troops, and chemical defense troops.

The Chinese communists pay a great deal of attention to materials about the world's first-rate contingent—the U.S. Marine Corps operational experiences and training topics, amphibious operations theory, and organization. Huang Chaoshi [7806 2600 0099], second in command of the Chinese Marine Brigade, once made a visit to the U.S. Marine Corps.

The Chinese Marine Brigade once took part in an engineering project on Yongsu Reef, Nansha Islands, and other reefs and shelves, and it dispatched troops to garrison them.

#### **Dynamic Force in South China Sea**

The Chinese train the Marine Corps to be a strong force suited for amphibious assaults. In the South China Sea and the Nansha Islands, the Marine Corps will be a dynamic, decisive armed force.

#### **Instruments for Transporting, Inserting Marine Corps**

Transporting and inserting the Marine Corps into an area for carrying out a mission depends on the Navy's amphibious warfare ships. To this day the Chinese communists still maintain some World War II-period U.S.-made landing ships. Of the new-type amphibious warships that have put out to sea and that were designed and built by China itself, the main ones are the Type 072 Zhoushan-class landing ship tank (LST) and the Type 079 Yulin-class LST; there is also the Qiongsa troopship.

#### **Type 072 Zhoushan-class LST**

Up to now, the Type 072 Zhoushan-class LST is the Chinese Navy's largest amphibious warship built by China itself.

This ship's standard displacement is about 1,400 tons and its loaded displacement is about 3,400 tons. The tank hold runs straight through from bow to stern, on each of which is a gangplank. This design is widely used by foreign countries in modernizing their navies. The advantages are that it makes the landing ship more mobile and the usable space in the tank hold larger.

When a landing is made in a narrow waterway the bow and stern gangplanks of many landing ships can be linked together to form a "corridor" through which personnel, vehicles, tanks, and materiel pass to the landing point.

It is estimated that the Type 072 LST can be loaded with 10 tanks. On the two sides of the ship behind the bridge are two Landing Craft Vehicle Personnel (LCVP), which can be lowered to the water surface by boat hoisting gears, and personnel or vehicles can embark on them and make their landing.

For the Chinese construction project for the Yongshu Reef Oceanic Research Station in the Nansha Archipelago, the Type 072 LST had the mission of transporting construction equipment and materials.

Recently, the Chinese have built a conversion of the Type 072; the loaded displacement was increased to 3,770 tons, and on the stern a helicopter takeoff and landing pad was added. Western specialists designate the conversion the Yuling-class.

#### **Type 079 Yulin-class LST**

The first medium-sized amphibious operations ship designed and built by the Chinese was the Type 079. After Western military experts learned about it, they mistakenly thought it was similar to America's medium-sized landing ship mechanized (LSM). In fact the Type 079 is an LST with smaller external measurements and tonnage than the LSM.

The standard displacement of the Type 0769 LST is estimated to be 650 tons, and there is no landing gangplank on the bow. The tank hold can be loaded with 200 tons of materiel, including five tanks or eight trucks. When used to transport soldiers it can carry 300 to 400 men.

Based on current data, all the Type 079 Yulin-class LSTs are deployed with the South China Sea Fleet.

#### **New-Type Qiongsa-Class Assault Troopship**

In the late eighties the Chinese Navy built at the Guangzhou shipyard a new type of assault troopship. The ship is fairly fast and can carry more military personnel. Western strategists have given it the code name, Qiongsa-class. Its appearance indicates that the Chinese are paying more attention to landing warships; and it has also caused Western countries to take seriously the Chinese amphibious operations capability.

The Qiongsa-class troopship has a loaded displacement of about 2,150 tons and a speed of about 16 knots. It can carry more than 400 troops or 350 tons of materiel. At both bow and stern is a jib that can lift light materiel,

but there is no helicopter pad on the ship. The ship can carry six Landing Ship Assault's (LSA), which can transport troops for a high-speed landing. The ship's self-defense weapons are four twin 14.5 mm heavy machineguns. The Chinese now have 12 Qiongsa-class assault troopships.

#### **Naval Air Corps Prepared for Three-Dimensional Warfare**

A naval air corps is an important, indispensable component part of a modern navy. Because of the prominent three-dimensional nature of modern naval warfare, the forces of the two belligerents at any time could be deployed under water, on the surface of water, and in the air—three different spaces—and at every stage of a naval battle the two sides will do their utmost to seize control of the air. Because a naval air corps is little restricted by terrain, sea area, hydrology, and other conditions, and coupled with its high-speed mobility and rapid reaction, it has become the decisive force in a naval battle.

The Chinese Naval Air Corps is now equipped with the China-made newest type Jian 8I, Jian 8II, and Jianhong 7 warplanes; and also the Jian 7, Jian 6, Hong 6, Hong 5, Shuihong 5, Zhi 8, Zhi 9, and Yun 8H aircraft and helicopters.

To improve its long-range operational capability, the Chinese Naval Air Corps has organized many sessions of long-range field training and long-range raid drills. On 8 November 1980, six medium bombers of the Eighth Regiment, Third Division, Naval Air Corps, for the first time patrolled the airspace over the Nansha Archipelago. This was the longest flight across the sea made by the Chinese Naval Air Corps since its formation.

The combined arms exercises organized by the Chinese have strengthened the Naval Air Corps training in coordination. From 1979 to 1984, units of the Navy organized formations at sea with surface ships and flying units to take part in combined arms training and live exercises in attacking an enemy by blockading bays, countering air raids, bombing and counter bombing, and reconnaissance and counter reconnaissance. Taking part in the joint training were the Hong 5, Hongzhen 5, and Jian 6. In the exercises, the Naval Air Corps and the ship units cooperated in carrying out battle sorties and voyages, reconnaissance, and air corps-guided submarine and guided missile attacks. Because of the air corps guidance, the submarines and guided missile craft broke free from the method of depending on on-board radar and on-island and coastal radar to discover targets and then attack them, thereby greatly improving their striking capability. At the same time, under conditions of

electronic countermeasures, the exercises provided experiences in carrying out concealed attacks, and once something occurs in the Nansha Archipelago the Naval Corps will be dispatched there in large numbers.

#### **When Will Chinese Communist Aircraft Carriers Appear?**

An aircraft carrier and its battle group form a comprehensive operational force. An aircraft carrier formation is usually made up of the following types of ships that have different functions: one aircraft carrier and deployed around it are two cruisers, four to six destroyers or frigates, and two attack submarines submerged—all escorting the aircraft carrier. In addition, to ensure that halfway supplies are obtained, two supply ships are deployed. Thus, the aircraft carrier battle group has both attack and defense operational capability. The various kinds of aircraft on the aircraft carrier and its escort ships constitute a force with a comprehensive capability for coordinated operations.

China's coastline is long, its littoral islands are spread all over, all the islands in the South China Sea are far from the mainland, and it is very difficult for the surveillance network of shore-based air corps radar and aircraft to cover all of the area. This has created an opportunity for an invasion, even an unbridled invasion—such is the situation today in the Nansha Archipelago. If China does not develop aircraft carriers, it cannot ensure the control of air and sea, and then it cannot effectively recapture lost territory and guard territory.

At the present time China does not have an aircraft carrier, and it even does not have the main member of the vessels escorting an aircraft carrier battle group—the picket ship.

There are three major key technologies in building an aircraft carrier: 1) in developing the carrier's warplanes, the technology of taking off and landing on the carrier: 2) the problem of fleet air defense, including the development and placement of an early-warning radar and interceptor aircraft: 3) with the development of antisubmarine technology, the solution to the problem of the underwater threat to an aircraft carrier formation. These three major key technologies are the weak items in China's national defense industry.

The Chinese communists are launching a dynamic military diplomacy, and they are strengthening their overall national strength and economic forces. The national defense industry is getting much out of this, and it now can obtain advanced technologies from different Western countries in order to improve China's weapon systems. After the disintegration of the Soviet Union, Russia, in 1992, promoted sales to China of its finished products in advanced weapons and some technologies, causing much improvement in the weapons and equipment of the Chinese communist armed forces. Among them was the Su-27 fighter purchased from Russia. The modified model of this aircraft, the Su-33, is a carrier-based aircraft. The Nansha crisis has quickened the desire in China from top to bottom for the development of aircraft carriers. If China's economic situation of sustained growth does not encounter an unexpected major setback, within five years the Chinese communists will have enough financial strength and technology to build their first functional aircraft carrier; and around the year 2005, they will have aircraft carriers as units in their fighting forces.



**General****Town Construction To Absorb Surplus Rural Labor***OW2407133095 Beijing XINHUA in English  
1309 GMT 24 Jul 95*

[FBIS Transcribed Text] Beijing, July 24 (XINHUA) — China will have to set up more towns to ease the pressure of millions of surplus farmers pose to major cities, said a report prepared by a group experts from the State Commission for Restructuring the Economy today. [sentence as received]

The report says that 120 million surplus farmers have been employed in township enterprises and believes that quickening development of the western and central parts of China will absorb more of the surplus rural population.

It estimates that China's rural population will grow by six million annually and the total number of surplus people in the countryside will amount to nearly 200 million by the end of the century.

"If the development of towns can maintain the current speed," says the report, "50 million surplus farmers will be absorbed by township enterprises by the end of 2000."

The report explains that China's rural economy has witnessed drastic progress over the past 15 years.

"China now has more than 55,000 towns, 6.7 times the figure in 1978. Of China's 900 million farmers, 105 million live in these towns," it says.

The report believes that China's rural region has yet to be fully developed because lying waste are 333,000 ha that can be transformed into farming fields, and 73.3 million ha of land upon which trees can be grown.

**High-Yield Oil Well Drilled in East China Sea***OW2407093195 Beijing XINHUA in English  
0854 GMT 24 Jul 95*

[FBIS Transcribed Text] Beijing, July 24 (XINHUA) — The Shanghai Offshore Petroleum Exploration and Development Corporation (SOPC) under the Ministry of Geology and Mineral Resources has just drilled a high-yield oil and gas well in the East China Sea.

The "Chunxiao No. 1 Well", located in the Westlake basin, has proven a daily capacity of 1.6 million cubic meters of natural gas and more than 200 cubic meters of crude oil, making it the second biggest well in the East China Sea, next to "Pinghu No. 4", which is also in the Westlake basin.

SOPC drilled another oil and gas well in the basin in March of this year, "Baoyunting No. 3", during which time they discovered oil and gas deposits.

Chen Zhouqi, Vice-Minister of Geology and Mineral Resources, told a news conference here today that in only half a year's time, China has obtained high-yield industrial oil and gas deposits in two wells, attesting to the fact that the East China Sea has good prospects for oil and gas reserves.

"Chunxiao No.1", he went on to say, is adjacent to the sea area opened for overseas investment, therefore, the important breakthrough made in the well will reinforce overseas companies' confidence in oil and gas exploration in the East China Sea.

China expects to drill 11 oil wells in the East China Sea in 1995 with cooperation from five overseas oil companies, including the U.S.'s Texaco, Esso, and Chevron.

China has so far signed 18 contracts for offshore oil exploration in its East China Sea territorial waters.

To date, East China Sea is estimated to have 5.4 billion tons of oil and 2,600 billion cubic meters of natural gas, accounting for one-fifth of China's offshore reserves.

Chen said that exploration for and development of oil and gas reserves will greatly alleviate energy shortage in East China, and will push up the local economy.

China has tapped three major oil and gas fields in the basin, with proven oil and gas reserves of more than 130 billion cubic meters.

**Finance & Banking****Bank To Boost Supply of Development Capital***OW2407140495 Beijing XINHUA in English  
1344 GMT 24 Jul 95*

[FBIS Transcribed Text] Beijing, July 24 (XINHUA) — The working capital shortfalls enterprises have experienced in the first half of this year were not caused by insufficient credits, a central bank official said here today.

"Instead, they were a result of fixed-assets investment squeezing working capital," said Wang Xiaoyi, who is in charge of the Investigation and Statistics Bureau of the People's Bank of China (PBC), the central bank.

The latest statistics from the PBC show that industrial loans by financial institutions nationwide reached 1,054.6 billion yuan (about 107.1 billion US dollars) between January and June, up 15.1 percent over the same 1994 period.

The increase in loans by the country's state banks, to the tune of 160.91 billion yuan, fell within the planned scope, Wang noted.

"The overall rise in the central bank's credits coincided with the industrial growth during the period," Wang said.

He said that the central bank has noticed that deposits by enterprises, demand deposits in particular, dropped slightly from the same period of last year.

However, he ruled out the possibility that the central bank will loosen its tight credit policy in the latter half of this year, as an over-increase in the growth of broad money still spells potentially big inflationary pressure.

But the central bank will take timely and flexible measures to appropriately increase the supply of working capital in order to back industrial enterprises, Wang said.

**Central Bank Successful in Reducing Money Supply**  
*OW2407133495 Beijing XINHUA in English*  
*1244 GMT 24 Jul 95*

[FBIS Transcribed Text] Beijing, July 24 (XINHUA) — The tight monetary policy implemented since the latter half of last year brought about a general drop in the money supply during the first half of 1995.

According to statistics published here today by the People's Bank of China (PBC), the central bank, the cash in circulation increased by an average of 21.1 percent from January to June, or 3.2 percentage points lower than the figure at the beginning of this year.

By June 30 the currency in circulation amounted to a total of 700.39 billion yuan nationwide.

The narrow money, or M1 in banking jargon, rose by 21.2 percent over the same period last year, yet it represents a 5.6 percentage-point drop over that at the beginning of the year.

However, the increase in broad money (M2), the indicator suggesting the intensity of inflationary pressure, showed a meager dip of only 1.6 percentage points, to stay at 32.8 percent by the end of June.

"The financial situation on the whole is better than expected, and the general trend is moving in the direction of the goal of macro-economic control," said a senior PBC official.

The PBC projected increase in currency circulation and narrow money for the whole year is 23 percent, and that for broad money is between 23 and 25 percent.

The country had a record currency withdrawal of 28.46 billion yuan during the first six months, a net increase

of 20.14 billion yuan over the comparable figure of last year.

The total individual bank savings, meanwhile, had built up to some 2,557.3 billion yuan by the end of June, with about 403.7 billion yuan added to the deposit pool during the January-June period.

Lending from state banks amounted to some 160.9 billion yuan, within the planned credit line set by the central bank.

The state foreign exchange reserve reached 62.66 billion U.S. dollars by the end of June, against a significant rise in exports during the first half of the year.

"We can say that China's economy is on a steady slowdown from the peak in this round of growth boom," said Wang Xiaoyi, chief analyst with the central bank. "All the indicators are pointing to what is called a soft landing."

But he admitted that it will be very difficult to bring down the rise in broad money supply as the investment in fixed assets and consumption funds have kept swelling.

"Now the central bank is caught in a bind: it faces a louder cry from enterprises for more capital supply, working capital in particular, but at the same time it must contain inflation at the targeted level," said Wang.

However, he noted that anti-inflation measures will remain the primary task of the central bank in the second half of the year. Therefore the PBC will not slacken its strict control of credit and money supply.

**\*Scholar Views State of Financial System Reform**  
*95CE0454A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese 20 May 95 No 5, pp 3-10*

[Article by Zhang Jie (1728 2638), Department of Finance, Shaanxi Institute of Economics and Finance: "On China's Financial Reforms and Ways To Further Them"]

**[FBIS Translated Text] I. Estimates of China's Financial Development**

1. Basic view. In general, more than a decade of economic system reform has brought significant, though not profound, changes to the financial picture. We say they are significant because intermediary fiscal institution credit creation and currency supply have increasingly become a basic support and promoting factor in economic growth. For example, of the total of all financial capital in society, over 85 percent is acquired through financial intermediaries; bank credit capital constitutes more than 80 percent of enterprise



capital on average; and "finance" is the most active, sensitive, and attractive variable in macroeconomic operations, while it is also the most direct factor driving the macroeconomic wave. Financial system reform is a key or risky "step" in our overall economic reform, and for many years, policy-making levels have been cautious and more cautious in operation; on several occasions, they attempted to perform some "major surgery" but in the end dared not "apply" it. We say they are not profound because the only change finance has received has been strong and rapid expansion in quantity, while the financial mix and financial system arrangements have actually remain unchanged. Considerable financial resources are still allocated by the old low-efficiency financial methods; maintenance of super-speed economic growth is largely attributable to bank capital expansion, with very little contribution from changes in the financial system and mix. In all, achievement in the financial area over more than a decade of economic reform shows a "sticky correlation" of currency supply and economic growth, with a correspondingly very high "cost" for each percentage point of economic growth.

2. Comparative analysis and evidence. First of all, we will make a vertical comparison. During the years 1978 to 1991, the GNP increased by 8.8 percent on average, while the supply of money in the broad sense ( $M_2$ ) increased 23.6 percent on average, and each kind of loan (L) increased 19.3 percent on average, the increases in  $M_2$  and L being 15 and 10 percent higher, respectively, than that of the GNP. In 1992 and 1993,  $M_2$  increased 31.28 percent and 24 percent respectively, while the GNP increased 13 percent and 13.4 percent, still a considerable gap. The most up-to-date figures published show that in 1994  $M_2$  increased at a rate of 34.4 percent, L at a rate of 24.1 percent, and the GNP at 11.8 percent, making the  $M_2$  and L 22.6 and 12.3 percentage points higher than the GNP, respectively. Furthermore, when we consider that plans are for the GNP to increase 8 to 9 percent in 1995,  $M_2$  by 23 to 25 percent, and L 17.8 percent, the pattern is still using the currency supply to spur economic growth. It is not difficult to see that using excessively high-growth bank capital and debt to support high-speed economic growth is the main characteristic of Chinese economic operations since the implementation of reform. Since this pattern has very strong inertia, at some time in the future this situation will be maintained in overall economic operations. Second is a horizontal comparison. The indexes in common use internationally are the  $M_2$ /GNP index and the FIR [financial interrelations ratio] index, the first representing the degree to which the economy is monetarized and the second reflecting the degree to which finance and the economy are correlated.

Let us first look at the  $M_2$ /GNP index. In the 11 year period 1978 to 1989, China's  $M_2$ /GNP advanced a total of 49.11 percentage points, and during 1989 to 1994, this index advanced 36 percentage points; although the latter five years advanced at a slower pace than the first 11, it still maintained very strong momentum. As a comparison, for the 11 year period 1959 to 1970, the  $M_2$ /GNP rates of advancement for the United States, UK, France, and West Germany were 7 percent, 4 percent, 11 percent, and 15.7 percent respectively; the indexes for Taiwan and Japan, both of which were in periods of economic development, were no more than 26.27 percent and 9.1 percent. Now, looking at the excess value for the  $M_2$  growth rate compared to that of the GNP, China's excess growth averaged 16 percent for the period 1978 to 1994, while during 1960 to 1983, the excess values for the United States, UK, West Germany, and Japan were 5.61, 9.53, 6.4, and 7.71 percent respectively.

So we can see that China's economic growth contains too many factors which are propelled by the money supply in the broad sense. Although the relationship between the growth rate of money in the broad sense and the growth rate of the economy is a debatable point, it is certain that there is a limit to the amount of impetus money can provide. The results of experimental investigations have shown that the excess value of  $M_2$  to GNP generally should not exceed 10 percent; otherwise, it demonstrates that there are problems with certain key links in the economic operation.

Now look at the FIR index. The complete FIR index can be expressed as FIR equals  $M_2$  plus L plus S (negotiable securities)/GNP. The difference between the FIR index and the  $M_2$  index is the FIR includes two financial variables L and S among its factors; the  $M_2$  index only considers fiscal indebtedness, while the FIR index pays equal attention to fiscal indebtedness and fiscal assets. Since the FIR index is more comprehensive, it reflects a country's level of financial growth, especially its level of marketization, and this is just what we need to investigation.

Looking at total volume, China's financial correlation rate is not high: It was 227.8 in 1991, compared with 526 in the United States, 392 in Japan, 294 in West Germany, 254 in France 254, and 289 in both South Korea and Malaysia. In the above, China's rate of fiscal correlation and its overall level of financial development are appropriate, which means China is in a typical fiscal situation in its development, with great potential for financial development. However, compared with other developing countries, it shows that there has been significant achievements in more than a decade of reform. For example, in 1978 the FIR in China was only 95.2 percent, rising 132.6 percentage points in more

than 10 years, while it was 175 in Brazil and 114 in India in 1988. However, analyzing the mix, in China's fiscal correlation rate, bank capital and debt occupied too great a proportion; for example, it was up to 201.8 in 1991, lower only than that of Japan, but exceeding many developed countries. S occupied too small a proportion: for example, in 1991 it was only 8.5, smaller even than of Brazil (50) and India (27).

Since the implementation of reform, China's financial development has been reflected primarily as one-sided expansion of bank capital and debt, and since bank behavior is controlled by the government to a great degree, so China's financial development also belongs to the typical "government driven" style. A very low S correlation rate explains that the market system operates very weakly in allocating financial sources. Needless to say, China's market directed reform has achieved much less in financial areas compared with other areas.

3. Conclusion: financial development or financial growth? As explained by developmental economics, growth is only an expansion of economic volume, while development is fundamental economic change; economic development itself is change caused by fundamental change. Another way of putting it is that economic development means change and progress but absolutely not expansion in quantity in the original mix and system. It is obvious that speaking in a more strict sense, what system reform brings to China's financial pattern is only a kind of financial growth, a simple expansion of total financial volume within the framework of the original financial mix and system. Further financial system reform should focus on touching the original financial system framework that controls financial volume expansion, building financial growth upon a brand new financial system mix.

## II. The Environment for Chinese Financial Development: A View From the Angle of Domestic Income Allocation Mix Change

Looking at overall direction, a fundamental change that system reform brings to the macroeconomy is the changed domestic income distribution pattern represented by a shift toward the individual sector. The impact of this change on China's financial reform and development process is thought to be serious. Of course, the tilted shift of domestic income distribution itself is inevitable, because reform against the background of a centralized economic system is in a sense the process of returning rights to the people and decentralizing capital for the people. Doubtless, this process contains the opportunity to develop fiscally; unfortunately we did not catch it very well, and the ongoing existence of the phenomenon of financial volume expansion is the di-

rect result. An important inference related to this is that financial volume expansion is not an inevitable part of system reform, but a product of misconduct in certain important points of reform. In order to more clearly understand the above inference, we have to make a simple examination of the changing processes of domestic income distribution and savings deposit mix.

1. A description of the process of changing the domestic income distribution mix. First, we examine the change of the primary distribution mix. If we are talking about the system reform process, the original mix (1979) of primary domestic income distribution is: 12.2 percent in the government sector, 37 percent in the enterprise sector, and 50.8 percent in the individual sector. After several years of reform, in 1988, these changed to: 11.4 percent in the government sector, 27.3 percent in the enterprise sector, 61.3 percent in the individual sector, and estimates for 1994 are for 10, 25, and 65 percent respectively. Overall, the general trend of the primary domestic income distribution mix change since the implementation of reform is: A slow decrease in the governmental sector (2 percent), a sharp reduction in the enterprise sector (10 percent), and an abrupt rise in the individual sector (15 percent).

Second, we examine changes in the redistribution mix. Theoretically, those elements in the enterprise sector which act as investing units are purely cost-shifting departments, while as consuming units, the government and individuals are income shifting. Therefore, by examining the changes in the domestic income redistribution mix, we can see the change taking place in income proportion between government and individuals. Statistical documents show that the government share in the income shift has dropped from 45.3 percent in 1979 to 2.2 percent in 1988, while the individual sector correspondingly rose rapidly from 54.7 percent to 97.8 percent; since the start of this decade, although some measures caused a certain rise in the rate of shift of government sector income, it was never more than 4 percent. In general, the part which is domestic income reduction from the enterprise sector is roughly becoming the volume of increase of the individual sector.

Finally, we look at the change in the distribution mix. In the early days of reform, the final distribution mix of government, enterprises, and individual departments was 23.5 percent, 12.1 percent, and 64.4 percent respectively; by 1988, this mix had changed to 11.7, 10.8 and 77.5 percent, and estimates are it will be 12, 10 and 78 percent in 1994.

It is not hard to determine from these figures that so far the individual sector has been the largest beneficiary since the implementation of reform. This sort of "pa



lei tuo [1584 4797 2094] improvement" characteristic of reform mobilized the progress of reform at the beginning and received wide support from the masses of the people, and this is exactly the fundamental reason for the successful progress of reform over the last more than a decade. However, looking at reform in the long term, it will be hard for this sort of "pa lei tuo improvement" to last. When people can no longer obtain increasingly higher anticipated profits from reform while having to take on the costs of reform, they will not support reform any more, and may even resist it. What is more worthy of attention is the abovementioned change in domestic income distribution mix which has had a profound and complex impact on financial resource allocation and financial reform procedures. Theoreticians and reformers will certainly have a difficult problem figuring out how to promote financial reform in an enthusiastic and orderly manner while domestic income is tilting greatly toward the individual sector.

2. Domestic savings deposit mix: international comparisons and the guidance they provide. Since the implementation of reform, with the shift in domestic income distribution mix, significant changes have also occurred in China's domestic savings deposit mix. The 1979, the domestic savings deposit mix was: 23.55 percent was in the individual sector, 33.65 percent in the enterprise sector, and 42.8 percent in the government sector; these had changed by 2.5 percent, 30.05 percent, and 7.25 percent by 1988; and the estimates for 1994 are 70, 25 and 5 percent. During the period 1976 to 1980, the average domestic savings deposit mix in the United States (on average) was 35 percent for the individual sector, 58 percent for the enterprise sector, and 7 percent for the government sector. In the same order, the figures were 42, 56 and 2 percent for the UK; 54, 37 and 9 percent in Japan; and 38, 35 and 27 in South Korea.

By comparison, the 5 percent share for the government sector in China is too low; it is usually between 7 to 9 percent in the developed nations of the West, and this does not suit the mission of economic development and reform that the Chinese government is undertaking. Doubtless, a major factor causing consecutive fiscal deficits and the lasting expansion of money is the too low share of government-sector savings deposits. South Korea's savings deposit mix no doubt has special significance as a reference. In that country, the 27 percent government-sector savings deposit share guarantees progress of South Korea's "government-led" reform and implementation of their economic development strategy. The reduction of the Chinese government savings deposit ratio contains the unreasonable factor of "releasing rights and giving up interests" (releasing rights which

should not be released, giving up interests which should not be given up); this is an important mistake made in overall reform. In addition, the savings deposit share of the Chinese enterprise sector is also too low; it generally falls between 35 to 60 percent in foreign countries, while it is less than 30 percent in China. The severe lack of enterprise savings deposits has actually become an important reason for the difficulty in making reform of the Chinese enterprise system progress successfully and for the "overflow impact" caused by it. The main roots of the lack of real progress in financial system reform lie here.

After all, China's reform, which is directed at "releasing rights and giving up interests" and "hiding prosperity among people," in the end only forms a resultant "hiding prosperity" among the individual sector (not hiding prosperity among the enterprise sector; the government sector prematurely removed its "weapons"), and this seriously warped and unbalanced the domestic savings deposit mix. What we must emphasize is that the aforementioned change in the trend of the domestic savings deposit mix did not catch the attention of reform policy-making departments, so there was a failure to adjust some key reform links promptly. In the end the opportunity was lost and further contradictions piled up.

3. Financial development under circumstances of the tilted shift of domestic income: opportunities and difficulties. The essence of financial operation is to concentrate society's surplus capital through specific channels and methods and convert them into effective investment procedures. If income is concentrated in a particular sector or is uniformly allocated by a particular sector at the outset, there is no need for a financial system to exist. This is precisely the deep-seated reason that China and its concentrated economy and state finance have been constrained for so long a period. If domestic income is occupied chiefly by the government sector, with the enterprise and individual sectors obtaining their production and consumption capital indirectly from the government sector, financial behavior in any true sense does not exist, let alone financial development. Experience demonstrates that the effect on financial development of letting the government sector occupy most of the domestic income at the outset and then implement vertical allocation is entirely different from using most of the domestic income in the individual sector and then implementing horizontal allocation through the financial market and financial departments.

The problem is that in more than a decade of reform, we have not found an effective method of concentrating our use of scattered domestic income in the individual sector. The shortfall in savings deposits in the government and enterprise sectors could not be compensated for for

a while by the financial market side, so it turned to "solid reliance" on financial departments (chiefly state-owned banks). In one sense, more than a decade of economic reform achieved only the "division" of domestic income without promptly achieving "reorganization," while the establishment and operation of financial development was a characteristic of the function of domestic income "reorganization." The "division" of domestic income is an essential condition of financial development, but not a condition of accomplishment. Obviously, the cause of China's financial volume expansion phenomenon is the "delinking" of the "division" of domestic income from the "reorganization" of the system.

Facing this reality, in arranging macroeconomic reform measures, we must promptly implement reform measures for changing from the old finance system (with public finance at the core), which corresponds to the existing "centralized" domestic income distribution layout, to a modern finance system (with the finance system at the core), which suits a "scattered-type" domestic income distribution pattern, and promptly absorbing savings deposits flowing from the individual sector. So we can, first of all, build up the capital exchange system between the individual and enterprise sectors. Now we can see how important this step was! If we had taken this step, the enterprise sector would not have brought pressures on the government sector since its savings deposit shortfall would have been effectively compensated for, and it would also have correspondingly reduced the burden on the banks. Banks would have had a relatively easy creative financial environment. Once the banking and enterprise sectors were both relatively "free," individual departments would also be presented with a "variety" of financial capital arrangements, and there would have been no more "deadlock" whereby banks rely on the individual sector to supply capital to the enterprise sector. It is not difficult to infer that if the enterprise sector could have made an early start on actual reform and formed a group of "economic organizations" in the strict sense, the enterprise sector itself would not have generously tilted its income to the individual sector, but would instead have focused on establishing a self-saving deposit system. Therefore, the low enterprise savings deposit ratio would without question have increased and returned to a normal level and formed a profound capital self-formation capability. Only under these circumstances could the government sector get out of the input and output area of "individual materials" and concentrate on investing and managing "public materials" (for example, social security, the legal system, the infrastructural industry, etc.) appropriate to its savings deposit capacity. Regretfully, we did not do it. A very precious economic reform and financial de-

velopment opportunity passed by us and was lost. The biggest cost is the cost of opportunity.

### III. China's Fiscal Reform Channels: Discussions and Choices

Since we did not seize the opportunity, macroeconomic operations appear to be in a "deadlock situation," and the environment for financial development also tends to be tight. To put it more bluntly, in the existing framework and profit mix, there is basically no way to go for financial reform. If we want to reform within this framework, the most we can do might be some "technical improvement." Generally speaking, it usually will touch upon many links of interests, cause many contradictions and conflicts, and put a high price on reform while producing only very small returns. We can conclude that reform of this sort is unreasonable. For a long time, people always regarded reform of the financial system and of the banking system as the same thing, but in fact, banking reform is only one important part of financial reform. Theoretically, what financial system reform reflects is the various allocating relationships of financial resources; its coverage is wide. Financial operation itself relies not only on the presence and scale of some visible economic department (such as a bank), it also relies on the establishment of the market connection of multiple economic departments and capital exchange relationships. Therefore, the object of financial reform is to relate financial sources and not the formation of a visible organizational system, although the organizational relationship is very important. If the above view stands, then it refutes the feasibility of an independently operating bank system reform. Obviously, when choosing channels for financial reform, we must consider, first, seeking resolution from the existing system and profits framework, and, second, seeking resolution from the banking system.

1. The process of existing financial reform: achievements and contradictions. If we define the property-rights mix corresponding to the state banking system as "publicly owned financial property rights," then in the more than a decade of bank system reform procedures, we have already implemented a simple division of this piece of public finance property rights. The division itself has two layers, horizontal and vertical. The vertical division is manifested in the establishment of branch banks of the state-owned specialized banks; the "layer-style" arrangement is based on the public ownership economy, with financial property rights after vertical and horizontal division simultaneously being included in the regional rights division framework and manifested as the establishment of regional branch organizations of the state-owned specialized banks. There-

fore, public-ownership financial property rights are finally displayed as a mix of horizontal and vertical crossing block shapes. It is worth our attention that: 1) Since each block of financial property rights do not have exclusive characteristics after the division, all specialized banks are representative under the same publicly owned financial property rights, and therefore what arises is the special competing phenomenon between the central bank and specialized banks. This competition is characterized by their fighting for pieces of publicly owned financial property rights without property rights boundaries. The result of this competition is that the central bank not only is unable to control the financial behavior of specialized banks, it also has to "compromise" repeatedly with the specialized banks. 2) In circumstances of public ownership, each level of government is usually truly representative of public ownership, while regional branch organizations of specialized banks are also representative of public (financial) property rights; this sort of uniform characteristic of property rights occurs easily as local governmental allocations are channeled by and through banking organizations. On this issue, people usually seek causes in the behavior of local government, so they believe the way to resolve this sort of situation is to change the function of local governments and reduce their interference with banks. In fact, the real reason is the simple division of public ownership. Because local governments pursue maximum local profits (including economic growth and social stability), it is really only logical for them to raise their capital demands on bank organizations. Therefore, if we do not change the mix fundamentally, no matter how we change the role of government (which of course must be done) or change the bank organization mix (such as setting out bank organization according to economic region) it will have no effect on the situation.

It should be stressed that the public-ownership financial property rights system restricts the scope of a bank organization's profit seeking at the outset (which is maximizing society's profits); its pursuit of profits supplies sufficient capital guarantees and monetary stimulus for economic growth, and therefore the above-mentioned pursuit of profit shows up quite strictly. However, after changing the system, the "centralized-type" bank system (exclusively the People's Bank of China) became the "rights-division type" system (multiple specialized banks coexisting), and leads to important changes in the profit-seeking pattern. Besides societal profits (chiefly policy-type businesses), each specialized bank now has its own individual interests, which in operation has created conflicts between the interests of society and those of the individual. Branch formation of specialized banks only changed the bank organizational system but did not touch the fundamental content of the

property-rights mix; in other words, what corresponds to specialized banks having a desire for individual profits is precisely the public-ownership financial property rights mix. Therefore, the pursuit by specialized banks of their own individual profits has in itself had a sense of seeking "individual profits" through "public ownership rights" and has determined the characteristic of "negative competition" among banks. For any specialized bank, it could externalize a great deal of the financial risk; after "independence" was given out, the central bank actually became the ultimate undertaker of financial risk. Furthermore, while specialized banks can, on the one hand, handle financial risk by externalizing it, on the other hand, they can also obtain monopolistic profits by exploiting the public ownership characteristics of property rights. Therefore, its operational situation is extremely stable, and will inevitably form "laziness in change." Speaking in this sense, the specialized bank system is a typical "transitional-type" system formed in Chinese reform. As a benefit of reform, specialized banks do not want a return to a "centralized rights" system, nor to the market system either. The reason is simple: Once they enter the market system, they will lose their situation of being the capital supplier to state-owned enterprises and obtaining monopolistic profits through this (without undertaking the risks). Obviously, solid state-owned enterprises are what the specialized banks need. The mutual dependence of "enterprise solicitation" and "bank solicitation" doubtless is the principal contradiction in Chinese financial system reform.

The reason behind the formation of the aforementioned two "solid-character" mutually dependent situations is that in the overall financial reform, neither enterprise reform or banking reform have gone smoothly. Theoretically, if there is no change in the state-owned enterprise system, there will be no discussion of the true character of the financial system. The significance of promoting financial reform through standing by enterprises is to establish a market relationship of effectively allocating financial sources and building a brand new financial operations cycle; in comparison, financial reform which is aimed at banks could only do some superficial work on the bank system "hardware" mix. This is exactly what (bank) system reform has experienced for over a decade, but "scale" and "quota" have still become basic factors in real world financial operations. In these circumstances, the further banks go forward (more division of property rights, more release of rights), the harder it will be for the government to control financial operations, and it will continue to rely on "scale" and "quota," presenting greater obstacles to financial reform.



Therefore we further infer that so-called reform which "aims for the market instead of establishing the market relationship" inevitably is characterized by excessive government involvement. Since there has been fundamental change in both enterprise and bank property rights mix, this means there is no financial property rights entity in a true sense, and in this situation, promoting so-called marketized reform is no more than letting government create market entities and allowing them to "exchange" according to fixed regulations. The result can only form (more precisely "make" ) a "financial market" on a certain scale, and the lack of participation by the financial property-rights entity will actually become a place for government "self-exchange." Converting the "exchange" among governments to exchange between financial-property-rights entities is a fundamental issue in financial system reform.

2. Seeking solution from property rights exchange: options for financial reform. The property rights economic analytical framework contains such fundamental topics as: all property rights are exchangeable, no matter what the property rights situation may be; all can attain an efficient situation of resource allocation via property rights exchange. Doubtless, as a process of adjusting the financial property rights mix, the key to financial system reform is property-rights exchange.

It need not be stressed that China's financial system reform faces a public-ownership financial property rights mix (primary property rights situation) characterized by property rights which are unexchangeable. Financial reform to date has made no contribution towards giving exchangeability to public-ownership financial property rights. Looking at bank system reform, many "block" shaped financial property rights formed after simple division were still of the same characteristics, with no difference, therefore it is impossible to have trading behavior among them in any true sense. This is not only the deep-seated reason why the existing shortcomings of the public-ownership financial property rights mix have not been removed after establishment of the state specialized bank system, it has also brought new contradictions in financial operations.

However, as a systematic existing factor, specialized banks have many practical difficulties in property exchange. To specialized banks, property rights exchange above all means "internalizing risk," and implementing commercialized operations means they must "take personal responsibility for profits and losses." The problem lies in whether they can "take personal responsibility for profits and losses." To make a rough calculation: The total volume of self-owned capital (assets) of existing specialized state banks is no more than 150 billion yuan, including 120 billion yuan held as public

finance, and more than 200 billion yuan in enterprise-hanging debts; in Western countries, the hanging-debt rate is generally controlled at between 0.5 to 1 percent in commercial banks, while our specialized banks have a hanging-debt rate as high as around 30 percent, with a total volume of more than 700 billion yuan; so not a single specialized bank can take personal responsibility for profits and losses, which explains that specialized-bank financial property rights cannot be touched at all for the short term. If we look at it further, what is highly related to specialized-bank property rights exchange is the issue of changing the system of state-owned enterprises. This means that taking personal responsibility for profits and losses for specialized banks in itself means "withdrawal" for some state-owned enterprises. This will not be an easy withdrawal. Estimates are that 30 million unemployed will result just from changing the state-owned enterprise system, and will drain 150 billion yuan from unemployment insurance funds. Obviously, society lacks the capacity to assume such a huge risk. We have pointed out that in the existing system and profits mix, financial reform basically has no where to go, and this is precisely the reason.

So how should we deal with reform of the specialized state banks? A possible strategic option is to hold off on tampering with the system and instead allow it to self-adjust during the marketization process. This is because in a situation where it is impossible for state-owned enterprises to conduct large-scale socialized operations, the high interrelation of "banks' solid character" and "enterprises' solid character" will be difficult to change for some time, and basically maintaining specialized bank current operational patterns will furnish temporary capital "guarantees" for the state-owned enterprise system to convert the system. With the gradual free flow and reorganization of state-owned enterprise production factors (human, fiscal and material), the two types of "solid" interrelated mix mentioned above will gradually change to loose from tight; after a few exchanges, meanwhile, the capital supply and demand environment will also be loosened. Against this background, specialized banks will face an unprecedented competitive environment. Some specialized banks will inevitably be squeezed out of the exchange process, some will go to commercialized operations, and the remainder will specialize in conducting policy-type business. Therefore, self-regulation of the specialized state banks actually is regulation of policy-type business. In the existing financial system, all specialized state banks are policy-type banks, and it is extremely abnormal for policy-type banks to monopolize a country's capital financing procedures. So it is of key significance for the self-regulation strategy to let the policy-type banks shrink in scale to a suitable level while not causing societal

economic shock (or else locate this shock on a sufficiently long timetable).

It must be noted that the option of allowing specialized state banks to regulate themselves, gradually suiting the market operations system, is a path to reform we must travel. It will require a huge expense in time and may even cost some opportunities to be lost. That is why some have proposed a reform framework aimed at "outside the system," which contains in it an important idea of encouraging development of nonpublic-owned (civilian-owned) financial institutions. As a system growth variable, nonpublic-owned financial institution financial property rights are exchangeable; moreover, they do not have that many "barriers," and have considerable leeway to be creative. According to system economics theory, the foundation of a financial system is financial operation regulations; this occurs in financial property rights exchange, and financial property rights exchange itself is different from the "individual interest" conflicting procedure among financial property rights entities. Undoubtedly, developing nonstate-owned financial institutions as well as encouraging their property-rights exchange will be of special significance to establishment of a modern financial system. Meanwhile, developing nonstate-owned financial institutions is also an important prerequisite for successfully conducting a specialized bank self-regulation strategy. The return of reform brought by development of nonstate-owned financial institutions no doubt will compensate for some of the costs of reform. If "individual financial goods" supplied by nonstate-owned financial institutions occupy quite a large proportion of the financial market exchanges, it will inevitably gradually attract capital demand from state-owned enterprises in the reform process and gradually lower its reliance on specialized bank capital supplies. Once the socio-economic pressures on specialized banks are reduced, self-regulation measures will accelerate naturally.

However, we must be clear that the key to seeking resolution from "outside the system" lies not in how large the scale of nonstate-owned financial institutions is but in what are the characteristics of the financial exchanges these nonstate-owned financial institutions are involved in, what kind of market relationships they have formed. In this sense, the so-called "backwardness" of "outside the system" reform is not that it is too slow at establishing nonstate-owned financial institutions (actually they are too fast), but that the brand new financial market relationships were built up too slowly. We can open many new financial institutions overnight, but letting these new institutions really merge into financial resources' efficient allocation cycle is not easy at all. In real world financial operations, we can see many

non-state-owned financial institutions engaged in "grey market" exchanges and "chao" [3509] or "tao" [1152] operations which have caused considerable misallocation of financial resources and loss of efficiency; the financial institutions that were built up at huge cost will in the end have to be regulated, limited, or replaced at huge cost. Obviously this sort of "outside the system" reform will not solve the problem.

Therefore, it is more important to aim for what lies beyond the financial institutions. Theoretically, enterprise property-rights exchange is the foundation of financial property-rights exchange. In addition, financial institutions are carried by enterprise property-rights exchange; without enterprise property-rights exchange there will be no financial institutions in any real sense. The entire set of financial institutions from upper to lower division would be no more than an "empty box" in the financial system. Of course, while financial property-rights exchange is important, not every financial property-rights exchange will lead to an efficient financial system. This will depend on whether financial property-rights exchange itself fits the general logic of financial system growth. If the logic is wrong and reversed, financial property-rights exchange can only add "trouble." Overall, establishing normal financial market relations between nonstate-owned financial institutions and the state-owned enterprises to reform and develop finance overall is a matter of critical importance.

### References

- Fan Gang [2868 4854], 1990: "On the Process of Reform," in: *Gaige, Kaifang Yu Zengzhang—Zhongguo Jingji Luntan* 1990 Nian Xueshu Lunwenji [Reform, Opening and Growth—a Collection of Scholarly Papers From "China Economic Forum" for 1990], Shanghai, Sanlian Bookstore, 1991.
- Fan Gang, 1993: "What Is the Fundamental Cause—Analysis Of Current Economic Fluctuations And Issues In Financial System Reform," JINRONG YANJIU, 1993, No 9.
- Guo Shuqing [6753 2885 3237] and Han Wenxiu [7281 2429 4423], 1991: *Zhongguo GNP De Fenpei He Shiyong* [Distribution and Application of China's GNP], China People's University Publishing House, 1991.
- Zhang Jie [1728 2638], 1993: *Zhongguo Jinrong Chengzhang Lun* [Theory of China's Financial Growth]. Doctoral thesis.
- Zhang Jie, 1994: "Property Rights in China's Economic System Reform," JINGJI XUEJIA, 1994, No 4.
- Zhang Jie, 1994: "Economic Analysis Of China's Bank System Reform," CAIMAO JINGJI, 1994, No 11.

Niu Renliang [3662 0088 0081], 1994: "Discussion of Making Unemployment Insurance An Entitlement," JINGJI YANJIU, 1994, No 10.

Xie Ping [6200 1627], 1992: "Analysis Of China's Financial Asset Structure," JINGJI YANJIU, 1992, No 11.

Tian Guoqiang [3944 0748 1730], 1994: "Methods And Steps To China's State-Owned Enterprise Reform And Economic System Conversion," JINGJI YANJIU, 1994, No 11.

**\*Article Views Impact of Foreign Banks in Dalian**  
95CE0470A Beijing JINRONG SHIBAO in Chinese  
11 Jun 95 p 1

[Article by staff reporter Xu Zhiping (6079 1807 1627): "Competing For Dalian Financial Markets; One in a Series of Special Reports on Dalian's Financial Opening to the Outside"]

[FBIS Translated Text] **Editor's note:** *China has conducted reform and opening to the outside for more than a decade. When people discuss which city has made the greatest strides in reform and has the most significant achievements, many will think of Shenzhen in South China; but in Northeast China, many people will think of Dalian.*

Conducting reform and opening has brought change in every area, and even longtime residents of Dalian will sigh over these many and quick changes. In Dalian's economic development and change, the most significant has been the opening to foreign countries of its financial businesses. On these topics, our correspondent conducted special interviews, and this paper will publish these reports starting today. [end editor's note]

When I had just arrived in Dalian, I made some cursory observations of Dalian's financial industry which left two deep impressions.

One impression was that Dalian has many financial institutions of a variety of types. Besides the existing four major specialized banks (Industry, Agriculture, China, and Construction), there are newly emerging joint-stock commercial banks, such as the Communications Bank, the China Trust Bank, and the Investment Bank. There not only is the China People's Insurance Company, but also the Dalian Life Insurance Company, the Pacific Insurance Company, the Safe Insurance Company, etc. Not only is there the Dalian Local Trust, there are also such nonbank financial institutions as the International Trust, the China Agriculture Trust, the China Creative Trust, the Chinese Bank Trust, etc. During interviews in Dalian, this reporter saw colorful advertising banners in the streets which were quite attractive, and after inquir-

ing about them, learned that the China Guangda Bank Dalian branch would officially open very soon.

What drew the most attention were the foreign capital banks. In the lobby of the Dalian Hotel, I saw a bronze plate that carried the directions for institutions in the hotel; it listed seven or eight foreign banks including the Japan Hypothec Bank, the Cherry Blossom Bank, etc., located in the Dalian Civil Aviation Building.

According to Ou Wei [2962 0251] and Zhou Changhui [0719 2490 6540] of the People's Bank Dalian Branch Foreign-Capital Financial Institution Administrative Office, Dalian now already has 22 foreign-capital financial institutions, including nine branches and thirteen representative offices. Obviously, Dalian has become the North China city with the greatest number of foreign capital financial institutions.

It is worth mentioning that according to plans of the Dalian city government, the major financial institutions are almost all concentrated on Zhongshan Square. Zhongshan Square is actually circular in shape, with several main avenues radiating from it in every direction; the People's Bank, the Industry Bank, the Agriculture Bank, the Bank of China, the Construction Bank, and the Communications Bank all have space on the square, which imaginatively displays the key position of the financial industry in our nation's economy, as well as representing Dalian's future in becoming a financial center in Northeast China, Northeast Asia or even in the world.

A second impression was that the leaders of Dalian's financial system have frequent involvement in foreign affairs. When I interviewed each bank director, there were several times when I ran into scheduling conflicts with foreign banks. On the afternoon of 16 May, after an hour-long talk with me, the Construction Bank deputy director, Cheng Chaoying [4453 6389 5391], had to leave for a meeting with Hong Kong representatives of the Bank of New York. I heard that Deputy Director Cheng was also to meet with the Japan Cherry Blossom Bank Dalian branch representatives at dinner time. On 18 May, I arrived at the Bank of China Dalian branch right after the branch director of the Japan Xingye [5281 2814] Bank had left. On the morning of 19 May, Li Shuying [2621 3219 5391], director of the Bank of China Dalian branch, had meetings with our newspaper and a representative of France's Societe Generale on the same schedule. I heard that at the Bank of China Dalian Branch Foreign-Capital Financial Institutions Administrative Office there are foreign affairs activities scheduled for Director Li Shuyin every week, and always three to five meetings with foreign capital banks.



In 1984, the State Council gave its approval for 14 coastal cities, including Dalian, to establish economic and technical development zones, taking the lead in opening up to foreign countries. In November of that year, the Bank of Tokyo asked for permission to establish a representative in Dalian. In March of the following year, the Xingye Bank also asked for permission to establish a representative office in Dalian so as not to lag behind the other. Since these two bank representative offices were approved at almost the same time, these two banks are still to this day competing to be proclaimed the first foreign capital financial bank in Dalian.

In 1985, Dalian was listed as an financial city open to the outside, following Shenzhen and Shanghai. After that, foreign-capital financial institutions came in one after another. Such countries as Japan, Hong Kong, South Korea, and France all asked for permission to set up Dalian representative offices.

In July 1992, the first foreign-capital bank opened a branch in Dalian. So far, Dalian has 22 foreign capital financial institutions, including nine branch banks (seven have begun operations) and 13 representative offices.

Although these foreign-capital financial institutions are "new arrivals," they have also done successful business. The Dalian People's Bank Dalian Branch Foreign-Capital Financial Institution Administrative Office respondents informed me that at present, the seven foreign capital bank branches already in operation have shown a good business situation, with total capital volume and profit levels tending to rise. By the end of April 1995, the total assets of these seven branches had reached \$888 million, the balance of foreign loans was \$475 million, the foreign capital enterprises and "three capital" enterprise import and export balance total amount was \$132 million with a total profit balance of \$739,800. At present, in the Dalian financial system foreign currency loan business, 24 percent is supplied by foreign banks; in the foreign currency savings deposit business, 15 percent is from foreign-capital banks.

The stream of foreign-capital banks arriving to Dalian is due, on the one hand, to a fondness for Dalian's location, while on the other hand, it is also linked with the rapid development of Dalian's reform and opening policy and its export-oriented economy. Historically Dalian was an important industrial base and port city in Northeast China, and was referred to as one of China's five business ports along with Guangzhou, Shanghai, Qingdao and Tianjin. Since the implementation of reform and opening, Dalian has rapidly developed such tertiary industries as township enterprises, "three capital" enterprises, foreign-trade enterprises, tourism, trade, and finance. The Dalian Economic and Technical Develop-

ment Zone is in the lead nationally in six areas: pace of development, construction scale, foreign-capital enterprise, sum of investment and actual amount of foreign capital in use, proportion of product export, and export for earning foreign currency. At the end of 1994, Dalian had approved 4,360 foreign invested projects, including over 2,300 that have gone into production. In 1985, Dalian foreign-trade enterprises began self-operation in export, exporting more than \$1 billion annually, while the annual import-and-export volume of the port was more than \$10 billion, and goods were exported to 116 countries and areas. Foreign-invested enterprises and foreign-trade export business expanded rapidly, creating the real needs and development conditions for foreign capital banks to come in. As Wumahebao [2976 7456 0735 0202], director of the Xingye Bank Dalian branch, said: "Many of our customers came to Dalian, so as a bank serving its customers, we should naturally follow our customers, plus our customers demand that we do so."

What kind of shock do Dalian financial circles face from the involvement of their foreign counterparts? What is the attitude of Dalian's financiers?

At first they did not understand or accept the foreign institutions. It is said that when the first group of foreign-capital banks was approved to enter Dalian, some specialized banks thought there were mistakes made in the Bank of China's administrative work. Seeing foreign-capital bank business becoming more flourishing everyday, how could the People's Bank not care about it? A specialized bank which had been doing a certain scale of international business could not hold on anymore and petitioned higher levels until it reached its national headquarters.

Needless to say, the financial business of developed overseas countries is more advanced than the domestic financial business, no matter whether it be such software as talented people, service, varieties, and efficiency, or hardware such as capital, computers, telecommunications, and facilities. China's domestic financial industry, which developed over a long time under the planned economic system, cannot compete with them starting out from the same point. Foreign-capital banks rapidly develop their Chinese business by taking advantage of their superiority in foreign capital, talented people, computerization, etc., which either directly or indirectly affects state-owned commercial bank business. This has to bring feelings of crisis and urgency to Chinese bankers.

For example, Dalian's specialized banks began to deal with international business and foreign-currency deposit business as early as 1988; at present, the sum of foreign-currency deposits in four banks (Industry, China, Con-

struction, and Communications) is more than \$400 million. But the foreign-currency savings deposit balance of six foreign capital banks which have been open for business for less than two years is over \$300 million dollars; this was quite unexpected by Dalian's international financiers and surprised them.

In his analysis, Chen Chaoying, deputy director of the Construction Bank Dalian branch, says that foreign capital banks have the following advantages: First is the advantage of foreign-currency capital capacity. A shortage of capital has always been a problem in China's economic development, especially for foreign-currency capital. Some foreign-invested projects with good economic efficiency and reputations will seek bank support, but the bank is limited either by scale or capital capacity, and cannot provide any help. Second is the advantage of managerial talent. Foreign bank employee quality and employee knowledge levels are undoubtedly higher than that of our domestic banks. In fact, foreign-capital banks have not brought many talented people to China, rather, a great number of backbone business employees were recruited from domestic banks with promises of high wages and benefit packages; this has caused major losses of talented people for domestic banks. It is said that some specialized banks international department workers have almost all left. The departure of one talented person not only loses all the training the banks provided over the past several years, it also loses a group of customers, so the direct and indirect losses are obvious. Third is the advantage of modern calculating service methods. We have to admit that in international business accounts, foreign banks are fast in balance, short in processing, and highly efficient. For the same foreign currency capital transfer from Tokyo to Dalian, foreign banks are several times, even more than 10 times faster than ours. For an enterprise with a great volume of foreign currency business, the reasons for choosing one's bank will be very clear.

So is the entry of foreign banks into the city a good or a bad thing for Dalian financial institutions?

Facing the foreign capital bank "shock wave," Dalian financial circles are making comparisons and thinking. In their comparisons, the people of Dalian feel puzzled, backward, and in crisis as well as confident and encouraged.

**\*Overseas Business of Communications Bank Viewed**

95CE0470B Beijing CANKAO BAO in Chinese  
1 Jun 95 p 2

[Article by staff reporter Xi Ri (1115 2480): "The Communications Bank Development Strategy Focuses

on Overseas Business; Difficulty for China's Financial Community in Going Into International Financial Markets; Foreign Currency Target Is 40 Percent of Total Assets"]

[FBIS Translated Text] The Communications Bank, with the earliest start and fastest development in commercialization, wants to make foreign business the focus of its future developmental strategy.

Wang Mingquan [3769 2494 2938], chief executive officer of the Communications Bank, disclosed that in accordance with the Communications Bank's comprehensive goal of moving to the second stage in reform and development, and based on an analysis of the current international and domestic economic and financial situation, the Communications Bank is putting direct stress on making overseas business the focus of bank development in its short-term plan for further reform.

In explaining this move, Wang Mingquan said that paying attention to developing overseas business is demanded for the bank to join international society. As China's socialist market economy develops, commercial banks such as the Communications Bank must gradually link up with international society and participate in international financial market competition, as is the international practice among international commercial banks. Overseas business connected with the international financial market is the most direct window for dealing with foreign commercial banks, as well as the most important area for joining the international community. It is only through enthusiastic and stable development of overseas business, and continuous improvement of the level of business, that the Communications Bank will reduce the gap with foreign commercial banks.

Meanwhile, developing overseas business is also demanded by the Communications Bank's participation in domestic financial competition. Wang Mingquan said that the bank had been in reconstruction for more than eight years, and while it cannot compete with other specialized banks in staffing and scale, it is competitive in its overseas business. The Communications Bank must maintain its advantages as a commercial bank in financial market competition, for promoting its advantages and avoiding its disadvantages is a critical point in vigorously developing overseas business.

In addition, developing overseas business can be what is needed to train talented people and improve team qualifications. Foreign-currency business brings comparatively large risks and demands strong technical skills; it also has higher staffing requirements, and if the Communications Bank can handle these items well its team capacity will be stronger and will provide a major impetus



to the bank's comprehensive level. Looking at the Communications Bank's current situation, all of the branch banks which have done a good job in their foreign-currency business are at a relatively high management level; therefore, developing foreign-currency business will train talented people as well help promote the development of bank business.

It is of greater importance that overseas business have a high profit return, and in a situation where the domestic market is highly competitive but the operating environment not very satisfactory, developing overseas markets is something the Communications Bank needs if it regards a profit return as its operational goal. Looking at the current situation, last year the Communications Bank's foreign-currency profit constituted 21.8 percent of total bank profits, exclusive of that part of the profits obtained from overseas and that part reflected as yuan profits. Comparatively speaking, there are fewer people doing overseas business but the profits are greater. This shows that enthusiastic development of overseas business will improve the operating returns of the whole bank. So while the bank reforms further, it must accelerate development of overseas business, and through several years of effort bring total foreign currency assets to 40 percent of the total volume of assets.

#### \*Bank Researcher Views Further Financial Reform

95CE0492A Beijing GUANLI SHIJIE  
[MANAGEMENT WORLD] in Chinese 24 May 95  
No 3, pp 44-48

[Article by Xie Ping (6200 1627), Policy Research Office, People's Bank of China: "Further Financial Reform by Building on Successes of 1994"]

[FBIS Translated Text] A number of new phenomena emerged in the financial industry in 1994 as China introduced another round of financial reform. The money supply expanded significantly, inflation continued to accelerate, the financial market underwent structural changes, the renminbi kept appreciating, and foreign exchange reserves doubled. These are all systematic changes. Against this backdrop, China's financial sector confronts the daunting task of controlling inflation even as financial reform is being deepened.

#### I. New Trends in Monetary Operations

High inflation was part of the reality of 1994, whether driven by cost or adjustments to the prices of agricultural products or led by investment demand. The difference is that this time around, high inflation was accompanied by some new trends in monetary operations.

##### 1. Radical changes in ways of feeding basic money supply.

The basic money supply expanded 458.621 billion yuan in 1994, an increase of 34.35 percent from a year ago. Judging from the assets composition of the central bank, there have been radical changes in the way funds were channelled into the basic money supply, changes that were closely related to financial reform. (See Table 1) First, the central bank has essentially stopped allowing the treasury to overdraw its account or making loans to it. Consequently, a much smaller portion of the basic money supply, a mere 2.5 percent, came from that source, down from 9.3 percent in 1993. Second, foreign exchange has become the principal source of the central bank basic money supply, rising from 7 percent in 1993 to 75.1 percent in 1994 when central bank net foreign-exchange assets increased \$30.4 billion, a change attributable to foreign-exchange reform. Third, lending by the central bank to commercial banks has dropped sharply, with its share of total loans to commercial banks dipping from 78 percent in 1993 to 20.1 percent in 1994. All these shifts have profound and far-reaching effects on funds movements in society at large.

Table 1. Assets Composition of Central Bank (as a percentage of increase in total assets for the year concerned)

	1993	1994
Loans to banks	78.0	20.1
Loans to non-bank financial institutions	1.6	0.7
Other loans	3.7	1.1
Foreign exchange	7.0	75.1
Loans to Treasury	9.3	2.5

Note: Numbers do not add up to 100 percent because of rounding off.

##### 2. Bank deposits reverse trend; credit funds ease.

**Table 2. Comparison of Increases in Deposits and Loans at All Types of Financial Institutions in 1994 (in billions of yuan)**

	Increase in Deposits	Increase in Loans	Difference
Specialized banks	304.88	233.75	71.13
Trust and investment companies	51.2	31.64	19.56
Rural credit cooperatives	138.39	91.35	47.04
Urban credit cooperatives	98.97	51.26	47.71
Other banks	37.22	24.82	12.70
All financial institutions	1126.93	721.66	405.27

Before 1994, all financial institutions in China, whatever their type (the only exception being rural credit cooperatives), consistently lent out more money in loans than they received in deposits. This is true whether you look at the year-end balance or the annual increase. The fund shortfalls were covered by a loan from the central bank. In other words, they were consistently in a state of overlending. The situation reversed itself in 1994, however. All financial institutions saw their deposits rise much faster than their loans, resulting in a deposit surplus. (See Table 2) Overall, the increase in deposits at all commercial financial institutions exceeded that in lending by 405.27 billion yuan. The impact of this shift on China's financial market and the workings of the macroeconomy must be fully appreciated. Clearly it was directly related to changes in the sources of the basic money supply of the central bank. With the exchange settlement and sale system and an excess of foreign exchange income over expenditures, enterprises can directly convert their foreign exchange earnings into renminbi funds through exchange settlement

and then deposit such funds in commercial banks (or financial institutions). The commercial banks, for their part, can also obtain renminbi funds instantly by selling foreign exchange to the central bank. In the process, the basic money supply released by the central bank as foreign exchange is directly transformed into bank deposits without going through the lending process. In 1994, Chinese enterprises increased their net deposits by 349.86 billion yuan, a gain of 191.94 billion yuan from 1993.

Another indication of the easing of credit funds was the continued rise in the provision rate of specialized banks on top of the surge in 1993. (See Table 3) The sharp rise in deposits also suggests a major expansion of the money supply broadly defined, or  $M_2$ . In 1994,  $M_2$  rose 34.4 percent, 10 percentage points higher than in 1993. Even as deposits jumped and funds were eased, however, some sectors and enterprises still reported fund shortages and a strong demand for loans. This is why: First of all, inflation being as high as it was, nominal interest rates on loans were on the low side. In effect, borrowers were paying negative interest rates. As a result, interest rates have been ineffectual in holding down the demand for funds. Instead, as a delayed effect of high investment, a large number of projects which had been completed and gone into production, as well as many rebuilding projects, experienced a dire need for follow-up funds. Third, some enterprises were not making money, were stuck with high inventories, and strapped for working funds. According to figures from the State Statistical Bureau, a total of 390,000 industrial enterprises had 415 billion yuan tied up in unsold goods at the end of 1994, 90 billion yuan more than at the beginning of the year. Enterprises also had 630 billion yuan worth of uncollected bills, 300 billion more than in early 1994. In late 1994, 20.3 percent of the enterprises were losing money, with their losses totaling 67.8 billion yuan. Fourth, banks have tightened lending risk management. As market risk rises, the banks have become more cautious in their lending, converting some deposits into nonloan assets.

**Table 3. Monthly Provision Rates (percentage) of Specialized Banks in 1994**

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Provision Rate	8.1	11.7	12.8	12.3	12.4	12.1	10.6	10.4	10.0	10.4	10.4	11.1

3. Pattern of lending continue to evolve; state bank loan quotas are losing importance in regulating and controlling total money supply.

Imposing loan quotas on state banks has traditionally been a leading monetary-policy tool. It also played a crucial role in macroeconomic financial regulation and control and in limiting the total money supply. But things changed in 1994.

Lending by all financial institutions in China to the non-financial sector increased 721.66 billion yuan in 1994, of which 516.1 billion yuan, or 71.5 percent, were state bank lending governed by quota restrictions. The 71.5 percent ratio represents a drop of 5 percentage points from 1993, the smallest decline in 10 years. Judging from the situation in the last four years, the downward trend will continue to intensify. Another notable phenomenon is that because of the shift in the deposits-to-loans ratio nationwide in 1994, with deposits overtaking loans, loans accounted for a sharply lower percentage of the total assets of all types of financial institutions as their nonloan assets rose. The same was true with state banks. In the case of the four specialized state banks, for instance, loans accounted for 54.1 percent of the increase in their assets in 1994. Previously, however, loans consistently constituted over 75 percent of their total assets. This shows that the diversification of financial institutions, the introduction of novel financial instruments, the development of the financial market, and bank reform itself have all deepened, making possible a rapid adjustment of the composition of bank assets and accelerating the transformation of entire financial system of society. This trend is expected to continue during the next several years.

Given the backdrop described above, the importance of state-bank loan quotas as a monetary policy tool will continue to decline. The money supply broadly defined, or  $M_2$ , grew a net 1.20127 trillion yuan in 1994, of which state-bank lending made up a mere 43 percent; no longer are lending quotas a major regulator of the total money supply. By the same token, they are also waning as a regulator and controller of aggregate demand. It has now become all but inevitable to reform monetary policy further.

On the other hand, using the maturation periods of loans as an indicator, China had too many fixed assets loans (medium- and long-term loans). Between 1987 and 1990, fixed assets loans accounted for a mere 13 percent of all loans. The number climbed to 17 percent in 1991-92 and 19.5 percent in 1993. In 1994, fixed assets loans made up 33.6 percent of state bank loans in the plan and 33.1 percent in reality, which nonetheless still more than doubled the average ratio in recent years.

In addition, the slow pace of the transformation of the operating mechanism of enterprises, their narrow margin of profit, and the fact that a number of enterprises in the course of transforming their operating mechanism tried to avoid paying back their many bank loans in every way possible increased the proportion of state-bank loans which were overdue or had become idle or uncollectible loans, thus slowing down the turnover of credit funds and making lending more and more risky. By late September 1994, just four banks—the Bank of Industry and Commerce, the Bank of China, the Agricultural Bank, and the Bank of Construction—were owed a whopping 68.2 billion yuan in interest alone, including 20.5 billion yuan which became due in 1994. The quality of bank credit assets has been deteriorating year after year.

## II. Changes In Structure of China's Financial Market

China's financial market was characterized by notable structural changes in 1994. With the introduction of new supervisory and control rules, the volume of trading on the money market shrank even as the market became more standardized. The securities market had a new look; the bond market became its most dominant segment, supplemented by the stock market. The stock market was marked by major ups and downs and excessive speculation, exposing its institutional defects even more clearly. More treasury bonds were issued, and they came in a wide variety; trading was active. The framework of a nationwide, standardized, interbank foreign-exchange market is already in place. Trading was active, and the volume of transactions was high. The renminbi exchange rate was stable along with a modest increase.

### 1. The money market.

In February 1994 the People's Bank of China issued "Credit Funds Management Provisional Regulations" and other related rules to regulate transactions on the money market. Essentially, interfinancial institution lending involving cash is to be limited to between seven days and four months; commercial banks will not make loans to trust and investment companies, securities companies, and other nonbank financial institutions for more than seven days; and short-term interbank lending must go through clearing houses (provincial and level-two branches) headed by the People's Bank and will primarily take the form of interbank, short-term lending notes, discount notes, or transfer discounts. Clearing houses may borrow funds for under four months from all financial institutions or lend funds to banks for under four months. The balance of funds at commercial banks will not exceed 8 percent of the balance of all kinds of



deposits during the same period of time. Under the new market rules of regulation and control, the volume of funds flowing through the interbank lending market as well as its direction have changed. Unjustified interbank lending was curbed and the money supply was further regularized. Fund transfers between the branches of a commercial bank no longer are counted as part of interbank lending. As of late 1994, state banks had lent a total of 111.18 billion yuan in short-term funds, up 13.08 billion yuan from late 1993, and taken in 41.29 billion yuan in short-term funds, off 810 million yuan from the same time a year ago, yielding a net outflow of 69.9 billion yuan, 13.9 billion more than in late 1993. Relative to their role as the principal lenders of short-term funds on the money market in China, state banks lent out only slightly more funds than in the past. Owing to a surge in deposits in 1994, financial institutions of all types had ample cash on hand, which explains the drop in interbank borrowing on the market compared with the preceding year.

## 2. The treasury bond market.

There were breakthrough developments in China's treasury-bond market in 1994. Altogether 102 billion yuan worth of state bonds were issued that year, a gain of 64 billion yuan over 1993. There was also more diversity in the type of bonds issued. At year end, 230 billion yuan worth of treasury bonds were unredeemed. The volume of transactions on the secondary treasury-bond market in 1994 was 2.3 trillion yuan, more than 760 times that in 1993 and accounting for 70 percent of the total volume of transactions involving all kinds of securities for that year, which made it the most active segment of the securities market with the highest volume of transactions. The secondary treasury-bond market was dominated by state-bond futures trading worth with its 1.92 trillion yuan worth of transactions. Spot trading had 70 billion yuan worth of transactions and treasury-bond repurchase, about 320 billion yuan. Although the treasury-bond market has made rapid progress, it rests on a less than solid foundation. Its enormous volume notwithstanding, most treasury bond futures trading was limited to a handful of products, all of them inflation proof. Futures trading is based on anticipation by buyers and sellers of a value-guaranteed subsidy rate. When the inflation rate drops below the fixed nominal interest rate carried by treasury bonds, with the subsidy rate will approach zero and the volume of trading in treasury bonds will tumble. Treasury bond spot trading still revolves around in-kind certificates, the number of negotiable bonds being quite small. In treasury bond repurchasing, where short-selling treasury-bond deposit certificates are typically used as collateral, the volume of trading has been soaring,

boosting the sale of treasury bonds and the expansion of credit. To further reform the treasury bond market by building on what it accomplished in 1994, we must first continue to reform the treasury-bond issue system in order to give the market a bigger role in treasury bond issue. More non-in-kind certificate treasury bonds should be issued. Bidding, widely practiced in the world as an issue method, should be introduced after contract buying and selling becomes firmly established to enable the market to set interest rates for treasury bonds. Second, we need to set up a nationwide unified treasury-bond trusteeship registration center to end the current fragmentation on the treasury-bond market and create a unified and nationwide treasury bond market. Third, we should step up the supervision and regulation of the secondary treasury bond market, particularly futures trading and repurchasing. We must correctly guide the market for products derived from treasury bonds, put an end to speculation completely, and standardize market regulations.

## 3. The foreign-exchange market.

The Chinese Foreign-Exchange Trading Center formally opened for business in Shanghai on 2 April 1994, suggesting that a unified interbank foreign exchange market has now taken shape in China. By late 1994, the foreign exchange trading center had done \$52.2 billion worth of business. It has 303 members, including 87 foreign-funded financial institutions. Meanwhile, foreign exchange regulating centers located across the country which cater specially to foreign-funded enterprises continue to operate normally, with their combined transactions in 1994 worth about \$10 billion. The operations of the Chinese foreign-exchange market in 1994 displayed the following characteristics: 1) Excluding the central bank, there was more supply than demand on the foreign exchange market. Within the Chinese foreign-exchange trading system, \$40 billion worth of foreign exchange was sold and \$9 billion was bought. On the foreign exchange regulating market, \$11.5 billion was sold and \$9.4 billion was bought. The supply-demand gap (\$32 billion or so) was covered by the central bank. 2) Exchange rates were made uniform nationwide. Trading was fair, impartial, and open. The methods of operation, technical conditions, and rules and regulations suited to an open foreign-exchange market have essentially become standardized. Trading procedures, fund liquidation, and market supervision and control are basically consistent with established international practices. 3) The exchange rate of the renminbi was on a gentle downward curve, its value rising steadily. On 4 April 1994, it traded at the rate of \$1:8.7. On 31 December 1994, it changed hands at \$1:8.4 yuan, a drop of 2,500 points. [sentence as published]

### III. China To Deepen Financial Reform

China unveiled a string of financial reform measures in 1994 to meet the needs of a developing market economy, which proved to be highly successful. We must continue to deepen financial reform in a quest for new breakthroughs.

#### 1. The outstanding achievements of financial reform.

Substantive progress was made in 1994 in transforming the functions of the central bank. No longer does the central bank make loans to the nonfinancial sector or extend short-term credit to the treasury. The duties and functions of the Bank of China and its branches are now clearly established to ensure the uniformity and authoritativeness of its monetary policy. The profit-retention system of the central bank and its branches has been replaced by a budget system. Financial oversight and control has been intensified within a framework of separate management.

The three policy-oriented banks—the State Development Bank, the China Agricultural Development Bank, and the China Import-Export Bank—have formally opened for business, which marks the completion for now of the move to separate policy-related banking from commercial banking. The issue of policy-oriented financial bonds has gone smoothly, ensuring the availability of funds to finance key government construction projects and procure agricultural by-products and going a long way toward boosting the exports of large sets by China. In 1994, key government construction projects were funded to the full, and there was no need to resort to issuing IOU's in the procurement of agricultural byproducts.

Now that they have been relieved of policy-related operations, specialized state banks have accelerated the pace of their transformation into commercial banks. Their head offices have strengthened centralized management and were given more power to allocate funds centrally. Their branches have stopped behaving like quasi-legal persons. Assets-to-liabilities-ratio management has been instituted in each of the banks with the approval of the central bank. Risk management has been broadened. The sense of competition has intensified. All branches and outlets at the grass-roots level have improved their operations and management as well as the quality of their services.

Foreign-exchange reform last year was a major success story. The dual-exchange-rate system was abolished and replaced by a single-exchange-rate system. What is in place now is a managed floating-exchange-rate system that is based on market supply and demand and is unified. Foreign-exchange settlement and sale

by banks have been proceeding smoothly. The practice of retaining foreign exchange and submitting it to the higher authorities was done away with, and an interbank foreign-exchange market has come into existence. Also, the withdrawal of foreign-exchange conversion certificates is drawing to an end.

#### 2. Some suggestions to deepen financial reform in China.

A. In view of the new circumstances in the financial industry in China, the reform of the monetary policy of the central bank must properly sort out these three sets of relations: First, the relation between the renminbi exchange-rate target and the money-supply control target, so that the domestic currency and foreign currencies are aligned with one another; second, the quantitative relations among the control of the basic money supply, state-bank lending quotas, and the regulation and control of the total money supply, with the ultimate goal being total indirect regulation and control; and third, the relations among the monetary, fiscal, industrial, income, and other macroeconomic policies.

B. Substantive progress must be made in the transformation of specialized state banks into commercial banks. Now that the "PRC Banking Law" has been promulgated, the reform of specialized banks should concentrate on the following areas. First, new incentive mechanisms must be introduced within bank personnel and wage distribution systems. Second, profit and assets-quality indicators must be given more emphasis in bank operations and management in order to put together an internal management system that is suited to a modern commercial bank. Third, the government must gradually develop a set of criteria that are consistent with the principles of a market economy for use in assessing the performance of specialized commercial banks. It should also experiment with the practice of imposing a supervisory council on specialized commercial banks. Fourth, the principle of separate management must be adhered to. The organizational structure and scope of operations of a state commercial bank must be determined, and ties between state commercial banks and their non-financial subsidiaries, controlling companies, and enterprises in which they have invested must be totally severed.

C. We must vigorously push ahead with the creation of urban cooperative banks. At the same time, we need to standardize the scope of operations, assets composition, and operating mechanism of existing urban credit unions so that they become real cooperative financial institutions.

D. We must continue to perfect the various foreign-exchange reform measures. First, we need to establish a

voluntary exchange settlement method to be used with foreign-funded enterprises. That accomplished, we can then unify interbank foreign-exchange market and interbank foreign-exchange regulating centers. Second, we need to complete the withdrawal of existing foreign-exchange quotas to bring an early end to the problems left over from the original foreign-exchange system. Third, we must continue to sort out foreign-exchange control rules and regulations accumulated over the years. Those found to be valid should be systematized and published to make them better known to the public. In this way, China's foreign-exchange control system will be consistent with established international practices. Fourth, we must work hard to prepare for the introduction of an international balance of payments reporting system and to tighten foreign-debt controls. Further, we need to further improve the foreign-exchange settlement and selling system and perfect the state foreign-exchange reserve operation and management system.

E. The insurance system calls for extensive reform. First, we need to set up separate property and life insurance companies. Second, we must set up a number of regional and specialized insurance companies. Third, we need to take action to expedite the formation of an insurance market in China and encourage orderly competition.

### **Foreign Trade & Investment**

#### **Jiang Zemin Meets Japanese Trade Mission**

*OW2407133895 Tokyo KYODO in English*  
*1306 GMT 24 Jul 95*

[FBIS Transcribed Text] Beijing, July 24 KYODO — President Jiang Zemin conferred Monday [24 July] in Beijing with an economic mission from major Japanese trading house Itochu Corp. headed by its President Minoru Murofushi.

Diplomatic sources said it is unusual for the Chinese leader to receive the top executive of a major Japanese enterprise, although he usually meets leaders of major U.S. corporations on a China tour.

His meeting with the Japanese mission takes place against a background of strained Sino-U.S. relations over the Taiwan issue, the sources said.

Jiang's audience was given top play in the evening news program on China's central television station on Monday night.

The Chinese leader said he highly appreciated long-term contributions by Japanese trading houses to China's economic construction, the state-run TV said.

#### **Meets Corporation President**

*OW2407131995 Beijing XINHUA in English*  
*1157 GMT 24 Jul 95*

[FBIS Transcribed Text] Beijing, July 24 (XINHUA) — Chinese President Jiang Zemin met here this afternoon with a Japanese delegation of the Itochu Corporation headed by its President Murofushi Minolu.

During the meeting, Jiang spoke highly of the effort the Itochu Corporation and other friendly Japanese corporations have made since long in promoting the economic cooperation and trade between China and Japan.

The Itochu Corporation have set up 18 offices, six solely-funded enterprises and more than 150 joint ventures in China, and its trade with China, which registered 4.59 billion U.S. dollars last year, ranks first among China's trade with a single foreign company.

Murofushi Minolu said that his corporation will continue to develop its business in China and make still greater contribution to the growth of the economic cooperation and trade between Japan and China.

The Japanese guests were invited by the China Association for International Friendly Contact.

#### **Planners Assess Shell Joint Venture Proposal**

*OW2407135395 Beijing XINHUA in English*  
*1342 GMT 24 Jul 95*

[FBIS Transcribed Text] Shanghai, July 24 (XINHUA) — A joint project between Shell of the Netherlands and Chinese businesses to establish an oil refining and petrochemical complex in south China's Guangdong Province, which will require a total investment of six billion US dollars, is now being appraised by the State Planning Commission.

A Shell official said today that the complex will have the capacity of refining eight million tons of crude oil and producing 450,000 tons of ethylene annually.

Talking about Shell's investment projects in China in the coming few years, he said the company earlier this month signed a contract to co-establish with local businesses a lubricant mixing plant, an asphalt storage and a emulsified asphalt manufacturing plant in Zhejiang Province.

Other projects the company is about to initiate include a liquefied gas supply system in Suzhou, a liquefied gas storage in Qingdao, and other basic petroleum facilities in Shenzhen and Hainan. The investment for all these projects will be tens of millions of U.S. dollars.



Shell has started the construction of oil storage and transportation facilities in Tianjin, and plans to invest in a lubricant mixing plant in the city.

With business operations in over 100 countries around the world, Shell started co-operation with China in prospecting in 1980, and has since invested more than 500 million U.S. dollars in the country.

#### **Record Steel Exports Achieved in First Six Months**

*HK2507084795 Beijing CHINA DAILY in English  
25 Jul 95 p 5*

[By Pan Zhongming: "High Stockpiles Mean Record Steel Exports"]

[FBIS Transcribed Text] Economic recovery in the West has helped China, which used to be a major steel buyer achieve a record level of steel exports, according to the Ministry of Metallurgical Industry.

The tight credit supply and retrenchment of capital construction has lowered steel demand at home and created a surplus for export.

A report from the ministry's economic development research centre shows that China shipped 5.25 million tons of steel, including 2.82 million tons of rolled steel and 2.43 million tons of billets, during the January-June period.

That is an increase of 2.13 million tons of rolled steel over the same period last year.

An expert with the centre said that the added value of the exported products has increased noticeably this year.

The main buyers of Chinese steel include Japan, South Korea, the United States and some Southeast Asian countries.

Meanwhile, China imported 6.3 million tons of rolled steel, a decrease of 4.38 million tons compared with the same period of last year.

The researcher attributed the increase in exports and decrease of imports to several changes in the domestic and international steel markets.

At home, the price of major steel products is still low despite some rising prices. It will take some more time for supply and demand to balance, he said.

During the first half of the year, China produced 46.4 million tons of steel, 0.26 per cent lower than that in 1994.

Of the total, 39.9 million tons were rolled steel, representing a decrease of 1.51 million tons compared with the first half of last year.

But the expert noted China's continuous casting ratio, an indicator of the production standard of the industry, has increased by 6.4 per cent to 45.7 per cent.

Supply is still higher than the demand in China's steel market, he said, as a result of massive spending in the industry during China's Eighth Five-Year Plan.

This investment is gradually bearing fruit, causing a high stockpile in 1994 that reached its peak in August.

By the end of last year, the stockpile had dwindled and its structure had changed.

The stockpile has shifted from buyers to suppliers—the steel factories and transporters.

Early this year, the stockpile grew a little higher than what the government considers reasonable.

But by the end of June, the stockpile had reached the upper level of the balanced supply and demand range.

The ministry estimates that the domestic consumption of rolled steel during the first half of the year is around 46 million tons.

Steel consumption in the railway, machinery and coal industries slackened while demand in the construction, oil and light industries remained the same, said the report.

At the same time, the production of pig iron has greatly increased. By the end of June China turned out over 49 million tons of pig iron, 1 million tons more than half of last year's total production, the report said.

Domestic pig iron consumption accounts for 80 to 90 per cent of the production.

China exported 2.05 million tons of pig iron during the first half, 1.83 million tons more than in the first half of 1994.

The expert said the booming pig iron market is closely related with the international steel market.

As world demand for steel has greatly increased, prices have followed.

But the primary products of steel in the world market are mainly imported from the developing countries.

In addition, domestic steel plants have built electric furnaces, which consumes waste steel. Since scrap steel is already in short supply, many plants have start to use pig iron instead, said the expert.

**New Regulations To Curb Counterfeiting  
Announced**

OW2407140695 Beijing XINHUA in English  
1349 GMT 24 Jul 95

[FBIS Transcribed Text] Beijing, July 24 (XINHUA)  
— The Chinese Government has announced new regulations aimed at cracking down on the counterfeiting of famous-brand goods.

China's Anti-Unfair Competition Law, which went into effect December 1, 1993, bans the unauthorized use of the name, packaging or design of "famous goods". The law, however, does not define what "famous goods" are, nor is it specific enough about their names, packaging or design.

According to the new regulations promulgated by the State Administration for Industry and Commerce (SAIC), "famous goods" refer to those enjoying a certain fame and popularity on the market.

Also according to the regulations, those who are the first to use the name, packaging or design will get protection.

The industry and commerce authorities above the county level are responsible for identifying famous goods and relevant name, packaging and design details.

Besides dealing with infringement cases in accordance with the Anti-Unfair Competition Law, the industry and commerce authorities can also confiscate and destroy such goods.

An SAIC spokesman said that the new regulations will help enhance the enforcement of the Anti-Unfair Competition Law and help the authorities more effectively crack down upon the counterfeiting of famous-brand goods.

**\*MOFTEC Official Views Yen-Debt Issue**

95CE0460A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese May 19 No 5, 95

[Article by Xu Changwen (1776 7022 2429), Trade Institute, Ministry of Foreign Trade and Economic Cooperation: "Appreciation of the Japanese Yen and the Development of Sino-Japanese Economic Relations and Trade"]

[FBIS Translated Text] Following the Hiroba Conference in September 1985, the Japanese yen began to appreciate tremendously against the United States dollar. For a time in 1994, it broke the 100 yen to the dollar mark. In 1995, the yen continued to climb. On 4 April, it finally broke the 90 yen to the dollar mark on the Tokyo bourse, and in mid-April, it converted at approximately 80.15 to the dollar, setting a new record on the Tokyo foreign exchange market. Appreciation of the Japanese

yen has caused a tremendous increase in Sino-Japanese economic relations and trade. However, all this increase occurred when the yen was higher than 100 to the dollar, but now that it has appreciated to its present level, whether economic relations and trade between China and Japan can continue to expand is problematical.

**Appreciation of the Japanese Yen and Sino-Foreign Trade**

The Japanese yen has appreciated rapidly against the United States dollar since the 1990s; however, because of the effect of numerous factors, including the composition of Chinese and Japanese imports and exports and the positive actions that the two countries have taken to expand bilateral trade, the two countries' trade volume has not declined but risen. In 1990, for example, trade between the two countries totaled \$16.6 billion. At that time, the rate of exchange between the yen and the dollar averaged 144.88 yen to \$1.00 for the year. In 1991, the yen rose more than 10.00 to the dollar, \$1.00 converting to 134.56 yen. In that year, the two countries' trade volume increased to \$20.3 billion, up 22.3 percent from the previous year. In 1992, when the yen appreciated to an average 126.62 to the dollar, the volume of trade between the two countries rose 25.1 percent. In 1993, when the yen appreciated to an average annual 111.18 to the dollar, volume of trade between the two countries reached \$39 billion, up 53.9 percent from the previous year. Japan became China's biggest trading partner. In 1994, when the yen appreciated to an average 102.23 to the dollar for the year, the two countries' trade volume reached \$47.9 billion, a 22 percent increase over the previous year.

Some other important reasons for the steady expansion of trade between the two countries despite the tremendous appreciation of the yen are as follows: 1) the sustained high speed growth of China's economy. Increase in domestic demand caused an increase in imports. In addition, growth of the economy also provided rather plentiful sources of supply for the export trade. 2) The increase in the number of three kinds of partially or wholly foreign-owned enterprises founded in China in recent years not only increased imports from Japan of machinery, equipment, and some parts, but the products these concerns produce were also regularly sold on the Japanese market, thereby stimulating expansion of trade between the two countries. 3) Appreciation of the yen helped Japanese firms increase imports from China. Japan not only increased its imports of industrial manufactures from China, but also actively opened up imports of vegetables and various foodstuffs from China. In 1993, Japanese imports from China increased 70 percent over the previous year, and in 1994, they increased

another 13 percent. 4) China offered goods of excellent quality at reasonable prices, which suited the needs of the Japanese market. 5) Following appreciation of the yen, Japan took positive action to lower costs in order to maintain the price competitiveness of its exports.

However, so far, expansion of trade between the two countries despite the appreciation of the yen occurred before the yen broke the 100 to the dollar mark. Furthermore, the yen is steadily rising against the dollar, and forecasts call for a continued strong trend in the future comparative price of the yen. Under these new circumstances, can trade between China and Japan continue to increase?

Let us first look at the matter from China's point of view. For several years to come, China's economy will maintain an 8 to 9 percent rate of growth. This is a fairly high rate of growth in world terms. Therefore, the scale of imports will also be very large. In the six years between now and the end of the present century, China's imports will reach nearly \$1 trillion. China is a very big market. In addition, with the high-speed growth of the economy, the large influx of foreign exchange, and the founding of three kinds of partially or wholly foreign-owned enterprises, China's supply of exports will become more plentiful. Clearly, not only will the scale of China's imports and exports not decline, but rather it will increase tremendously.

From the Japanese point of view, inasmuch as appreciation of the yen has already broken the 100 to the dollar mark and is continuing to approach 80, domestic export costs will shortly become hard to digest. Whether Japan's exports will continue to maintain their strong competitiveness is a matter of concern. Some Japanese exports have already lost their price competitiveness. Furthermore, appreciation of the yen may once again plunge the Japanese economy, which has recovered slightly, into another recession, thereby hurting domestic demand and adversely affecting imports from China.

Clearly, how future Sino-Japanese trade fares will be determined to a certain extent by the specific countermeasures Japan takes to expand Sino-Japanese trade. In early 1994, we predicted that Sino-Japanese trade volume would reach \$50 billion in 1995, and that by the year 2000, trade between the two countries would exceed \$100 billion. If the Japanese can take concrete actions under the new circumstances to promote the development of trade between the two countries, their trade volume for 1995 may well reach, or exceed, the forecast figure, and a trade volume of \$100 billion for them by 2000 is also entirely possible. Actually, Japan's actions to expand exports to China will not only help

develop trade between the two countries, but will also greatly help revival and growth of Japan's economy.

#### **Appreciation of the Yen and Sino-Japanese Economic Cooperation**

During the past several years, when the yen has been steadily appreciating, investment in China by Japanese firms has increased steadily. In 1994, Japan invested in 3,018 projects in China, signing contracts for \$4.44 billion, and actually investing \$2.075 billion. Despite a decline in the number of investment projects, contracted amounts and actual funds invested increased a respective 50.0 and 57.2 percent. Very clearly, the investment of Japanese firms in China continues to increase. However, the investment situation in 1994 may be characterized as follows: 1) a trend toward diversification in the kinds of industries investing; 2) investment is tending to spread from the coast to inland provinces; 3) Japanese investment in China as a percentage of foreign capital brought into the country for the year remains not very high. Actual Japanese investment in China in 1994 amounted to only 6.1 percent of total foreign capital brought into the country during the year, i.e., it could not compare with the more than 20 percent of Chinese foreign trade that Sino-Japanese trade accounted for during the year. Much less could it compare with the 22.7 percent of Chinese imports for which exports from Japan account. It is not difficult to see from this that Japanese firms are only stressing exports to China; they do not want to increase investment in China. Certain major industries, in particular, are more conservative about investing in China.

Predictions call for a possible new high tide in the investment of Japanese firm in China now that appreciation of the yen has broken the 90 to the dollar mark. Therefore, China must abide by its 10-Year Plan and the Eighth Five-Year Plan, as well as its newly drafted industrial policy when bringing in investment from Japan. It certainly must not take precipitous action, and it must guard against damage to environmental protection or even the entry of backward things.

#### **Appreciation of the Yen and the Yen Credit Burden**

China's use of yen loans began in 1979. By the end of 1994, China had signed three yen-loan agreements with Japan totaling 1.6809 trillion yen. The first yen loan ran from 1979 to 1984, covered six projects, and amounted to 330.9 billion yen. The second yen loan ran from 1985 to 1989, covered 16 projects, and totaled 540 billion yen. The third yen loan is presently in force. It runs from 1990 to 1995, covers 42 projects, and totals 810 billion yen. In December 1994, China and Japan signed an agreement for the first three years (1996 - 1998) of



the fourth loan covering 40 projects and totaling 580 billion yen.

The conditions of the first three yen loans are as follows: an interest rate of within 2.5 to 3.5 percent repayable in 30 years, including a 10-year placement period.

Implementation of the third yen loan suggests the following features: First, the percentage of the loan to be used for economic infrastructure improvements is large. For example, in the first yen loan, commodity loans amounted to only about 10 percent, but now virtually the entire loan is for infrastructure. Second, the percentage of the infrastructure project loan to be used for the transportation sector such as railroads and ports is fairly large at 53.6 percent. Third, progress on granting the loan to China is smooth because China takes only four years to complete projects that other countries take an average of six years to complete. The Japanese give high marks to China's ability to use yen loans.

The results obtained from these loans in improving the building of the economic infrastructure, in advancing development of the economy, and in bringing in foreign capital have received high marks. However, because of the continuing tremendous appreciation of the yen, China carries a heavy debt burden. For example, as of the end of 1994, China used loan funds of 1.5394 trillion yen. After deducting the portion repaid, amounting to approximately 100 billion yen (the equivalent of somewhat more than \$800 million), a balance outstanding of 1.4394 trillion yen remains, i.e., more than \$6.7 billion yen. Figured at the current exchange rate of 90 to \$1.00, this 1.4394 trillion yen amounts to \$15.99 billion, i.e., \$9.29 billion more than the original somewhat more than \$6.7 billion, not including interest. In 1990, China entered the yen-loan repayment period. As the yen-loan accumulated debt increases, China's increased yen-loan debt repayment burden will become worse and worse. At the present 90 to \$1.00 rate of exchange, for every one yen rise in the value of the yen, China's debt-repayment burden on the 1.4394 trillion debt will increase nearly \$200 million.

Our raising the matter of the yen-loan debt burden does not mean that we have any problem repaying the debt. In 1994, China's foreign debt balance was \$92.8 billion, up \$9.23 billion from the \$83.57 billion at the end of 1993, for an 11.0 percent increase. This figure shows that the ability of a China open to the outside world to contract debt on the international capital market has increased. China's reputation is becoming stronger and stronger. This is an important mark of the country's political stability and fine economic outlook. In 1994, both China's foreign-debt repayment rate and its indebtedness rate were within the usual international

balance numerical values. Therefore, both the country's present debt repayment rate and indebtedness rate are still within government macroeconomically controlled tolerance limits, and there is no problem.

Our purpose in raising the issue of how appreciation of the yen adds to China's debt burden is to attract the serious attention of Japan, and to devise means for cooperation with the parties concerned in China to enable appropriate solution to this problem. The purpose of yen loans is to help developing countries further improve their economic infrastructure to develop their economies. If appreciation of the yen increases the debt burden of developing countries, the original intention in providing the loans is defeated. Therefore, it is reasonable for Japan to take positive actions to solve this problem. Some knowledgeable people inside Japan also advocate the adoption of countermeasures to solve China's yen-debt burden problem so that assistance to China does not become a burden for China.

## Agriculture

### Li Lanqing Urges Stepped Up Antidrought Efforts

OW2407160195 Beijing XINHUA in English  
1502 GMT 24 Jul 95

[FBIS Transcribed Text] Xian, July 24 (XINHUA) — Vice-Premier Li Lanqing has called upon people in the drought-stricken province of Shaanxi to step up efforts to reduce the loss caused by the natural disaster.

Ending a five-day inspection trip to the northwest inland province today, Li urged the provincial government to help farmers expand agricultural production and minimize the impact of drought.

Shaanxi has been suffering from a severe drought for the past few months, which has led to difficulties in farming and people's daily lives. But rainfall in recent days has stopped the situation from worsening.

Li asked the province to take the opportunity to increase the planting of appropriate crops and strive to offset the losses from the drought.

Meanwhile, it is necessary to speed up state purchase and transportation of grains so as to guarantee the supply to people in the disaster-hit areas, he stressed.

The vice-premier pointed out that water shortage is an outstanding problem affecting agricultural production in northwest China, which should be tackled through promoting water-saving agriculture.

It is also necessary to keep on spreading the technology of arid-land farming and improving water control in this region, Li said.

**Bank Grants Loans to Areas Hit by Flood, Drought**  
*HK2507082195 Beijing CHINA DAILY in English*  
 25 Jul 95 p 1

[Article by Wu Yunhe: "Bank Issues Relief Loans"]

[FBIS Transcribed Text] The Agricultural Bank of China (ABC) and the China Rural Credit Co-operatives under the ABC have granted emergency loans totalling 2.11 billion yuan (\$254.2 million) to areas hit by flood or drought, a bank spokesman announced yesterday.

ABC contributed 1.35 billion yuan (\$162.6 million) of the total loans, the spokesman said.

The special relief loans have gone to disaster-stricken areas in 11 provinces and autonomous regions across the country, bank officials said.

ABC is investigating the flood situation in the south and the drought in the northwest. "The bank has started to draw up a further lending programme to help the disaster-hit localities restore agricultural production and re-build their communities," an official noted.

The Ministry of Civil Affairs warned that although the country has won an initial victory over flooding in the south and drought in the north, many areas are only now entering the flood season.

"It's likely that serious disasters will happen again," a ministry official said.

Jiangxi and Hunan provinces have been most affected by the flooding, the ABC officials said. Farmlands are being devastated and dwellings damaged.

ABC's Jiangxi branch has granted 97.93 million yuan (\$11.8 million) in relief loans to support local efforts to restore production and rebuild homes.

In Hunan, the ABC's branch in Changde has disbursed 20 million yuan (\$2.4 million) in loans towards materials and labour for the flood relief effort.

In Yiyang Prefecture, Hunan Province, the local ABC branch has earmarked 31 million yuan (\$3.7 million) for disaster relief.

As for the drought, the southern mountain areas of the Ningxia Hui Autonomous Region are suffering their fourth consecutive severe drought since 1992, seriously hurting local agriculture and people's livelihoods.

The mountain areas, comprising eight counties, are receiving a special relief loan of 141.86 million yuan (\$17.1 million) from ABC.

The special relief loans are aimed at helping the drought hit areas achieve economic self sufficiency.

The rural credit co-operatives in the drought-stricken counties of Ningxia have given an additional 17 million yuan (\$2 million) in disaster relief loans to support local economic development.

The Ministry of Civil Affairs has issued a circular asking local civil affairs departments and other local offices to carefully assess the disaster situation and develop a practical plan to assist flood and drought victims. The Stated Flood Control and Drought Relief Headquarters has said that the flood situation is relatively tense compared with previous years. Many weak points still exist in the flood-prevention work of lower administrative bodies. Their leaders are ill-prepared for sudden floods, and few measures have been taken to forestall disasters, headquarters officials said.

**Agreements Signed To Facilitate Importing Animals**  
*HK2507081495 Beijing CHINA DAILY in English*  
 24 Jul 95 p 2

[Article by Sun Shangwu: "Pacts To Facilitate Importing of Animals"]

[FBIS Transcribed Text] China has opened its market wider to the import of animals from the United States and Canada with the recent signing of a package of quarantine agreements with the agriculture departments of the two countries.

The package includes memoranda of understanding on imports of animals and animal genetic material, and quarantine requirements for imported ostriches.

Quarantine measures were revised for some other animals and animal genetic materials, including cattle, swine, bovine embryos and bovine semen.

The agreements were signed during the visit to the US and Canada of a delegation led by Yu Dahai, Director-General of the Administration of Animal and Plant Quarantine of China. The visit ended early this month.

The agreements affirm the previous regulation allowing selected animals and animal genetic materials from the US and Canada to enter China after they are guaranteed to be disease free.

Ostriches will be allowed to come into China in flocks for the first time—to meet the demands of the Chinese market.

Ostrich meat is becoming more popular in China and there is growing interest in raising ostriches.

Chinese animal quarantine authorities previously signed separate agreements with the US and Canada on importing cattle, swine, bovine embryos and bovine semen, in 1987 and 1993.

The accords have been revised to resolve problems in implementation.

The revised agreements take into account new scientific techniques and standards recommended by international organizations. The pacts also make more convenient the quarantine and import of the animals and genetic materials.

"The import of these animals will add new and high-quality animal breeds to the domestic market, promote the development of China's animal husbandry and give more choice for Chinese people's food baskets," Yu said.

The imports also are expected to boost trade between China and two nations.

The US and Canadian agriculture departments will be responsible for the testing and issuance of health

certificates for animals and animal genetic materials exported to China.

**\*Sichuan Reports Wheat, Rapeseed Storage**

95CE0444Y Chengdu SICHUAN JINGJI RIBAO  
in Chinese 15 Jul 95 p 1

[FBIS Summary] As of 15 July, Sichuan Province had put 1.706 billion kg of wheat in storage, an increase of 189,680,000 kg over the same period in 1994, and 510,280,000 kg of rapeseeds were procured, an increase of 228,260,000 kg. In addition to the wheat contract price, Sichuan is providing a subsidy of 8 fen per kg, the contract price for medium-grade wheat is 1.10 yuan per kg. Sichuan has implemented a guaranteed price for rapeseeds, the procurement price will not be less than 2.6 yuan per kilogram.



### East Region

#### Shandong Governor Views County Enterprise Reform

SK2407133795 Jinan Shandong People's Radio  
Network in Mandarin 2300 GMT 23 Jul 95

[FBIS Translated Text] Shandong Province held a work conference in Zhucheng city on 20 July to discuss the county enterprise reform and the pilot work undertaken by counties for reform and opening up.

Attending the work conference and delivering an important speech were Li Chunting, deputy secretary of the provincial party committee and governor of the province; and Song Fatang, deputy secretary of the provincial party committee and vice governor of the province.

Comrade Li Chunting pointed out in his speech: By bearing their reality in their minds, various localities should earnestly draw on the successful experience gained by cities—including Zhucheng—and seize the opportunity to vigorously accelerate the county enterprise reform. In the second half of this year, enterprises throughout the province should join in the county enterprise reform in an overall way. We should strive to have enterprises that have conditions for reform basically fulfill the task of systematic reform in the first half of 1996. For this, Li Chunting urged localities to do a good job in grasping the principle of reform conducted among state-owned enterprises. This means that we should uphold the following several standards in reform, which were stressed by Zhao Zhihao, secretary of the provincial party committee: 1) We should judge whether the state-owned assets have increased their value or have run off. 2) We should judge whether the enterprises' mechanism has been shifted and whether the enthusiasm and creativeness of the broad masses of staff members and workers have been higher or have declined. 3) We should judge whether the structural readjustment, technical renovations, and internal management of enterprises have been enhanced or weakened. 4) We should judge whether the production and economic results of enterprises have achieved development and have risen or have fallen back and declined. 5) We should judge whether the contributions made by enterprises and the incomes of staff members and workers have risen or declined.

Li Chunting stated: The focal point of conducting systematic reform among state-owned large and medium-sized enterprises in the period should be placed on establishing limited liability companies. As for small state-owned enterprises, collectively-owned enterprises in urban areas, and township enterprises, we should adopt the systems of shareholding and cooperation. Such sys-

tems are the new-style enterprise systems created by the masses in the course of practice and are worth to be unbridledly popularized. We may adopt the methods of merger, association, rent, auction, and bankruptcy in consolidating small enterprises that are with little strength and suffering losses to promote the readjustment of the structure of industries and products; so that we may achieve in selling larger enterprises, in opening the projects of new products, and in running larger enterprises.

Comrade Li Chunting stressed: In conducting reform among enterprise systems, it is imperative to strictly implement the state's relevant policies, laws, and regulations. In appraising assets, it is imperative to only allow the intermediary organs approved by the state and which are qualified in asset appraisal to carry them out. All appraisal results should be approved by the state assets management department at the corresponding level so as to realistically prevent the state-owned and collectively-owned assets from the man-made losses caused in the course of appraisal. Various localities should have a foothold in creating something new in systems, deepen in an overall way the internal reform of enterprises, continuously deepen the reform in the three systems of enterprises in line with the demand of establishing modern enterprise systems, and should do a good job in building systems in various fields. Governments at all levels should attach great importance to the work to foster the contingent of entrepreneurs. Enterprises should select their leaders from those who have courage and insight, know well business and management, are good at making policy decisions, boldly pioneer the road of advance, and bravely create something new. Governments at county and township levels should accelerate their functional transformation; separate the representative function for ownership of collectively-owned property from the function of administration and management, the ownership of state assets from the property right of legal entities of enterprises; and should orient their activities of conducting direct management over the production and business of enterprises onto the track as soon as possible of doing a good job in formulating plans, carrying out coordination, rendering services, and in conducting supervision.

In his speech, Comrade Li Chunting also emphatically stressed the issue of boosting the large and medium-sized enterprises and urged localities to unify their understanding, to earnestly and successfully assign enterprises to take up the pilot work in this regard, and to vigorously enliven the state-owned large and medium-sized enterprises.

**Zhejiang Governor To Improve Economic Growth**  
HK2507081295 Beijing CHINA DAILY in English  
24 Jul 95 p 1

[By Chen Li: "Zhejiang Aims To Speed Up Growth"]

[FBIS Transcribed Text] Hangzhou — Combating the current flooding in Zhejiang Province is now a priority for Governor Wan Xueyuan. But he has not been diverted from his strategic goal of improving the quality of the province's economy and the living standards of its 43 million people.

Wan is confident about the economy. The province's gross domestic product rose 21.3 percent last year to reach 265 billion yuan (\$31.9 billion).

But more efforts are required to meet the provincial government's goal of achieving modernization before 2010, Wan said.

The province's priorities in the coming years lie in accelerating the development of agriculture, tourism, power and ocean resources, the governor said.

The nationwide implementation of the five-day work week is conducive to the development of the travel business in a province such as Zhejiang, with abundant tourism resources, both natural and cultural.

Potential tourists include residents of Shanghai, Guangdong, Hong Kong and Macao, as well as Zhejiang natives who work elsewhere and reunite with their families in hotels near the scenic spots of their home province.

With favourable natural conditions for thermal, hydroelectric, nuclear, wind-driven and tidal power stations, Zhejiang has an ambitious plan to become the energy base in East China at the turn of the century, Wan said.

China's first domestically designed and built nuclear power station—the 300-megawatt Qinshan Nuclear Power Station in Zhejiang's Haiyan County—has just passed State inspection.

A number of water-pumping and power-generating stations are planned to provide energy for peak hours, including one already under construction in Tianhuangping, Anji County. With a capacity of 1,800 megawatts, it is expected to be one of the largest of its kind in the country.

With 2,200 kilometres of coast-line, Zhejiang has several sea ports, including Zhapu, Ningbo, Zhoushan, Jiaozhang and Wenzhou. The ports have an annual handling capacity of 61 million tons and will expand further in line with the development of Shanghai, especially the Pudong New Area.

The East China Sea has huge potential oil and gas resources. These resources are already being exploited in the northern area, and a survey in the southern area is in full swing, the governor said.

Science and education also are among Wan's major concerns.

He has proposed the building of 100 model primary schools in underdeveloped areas, with the financial assistance of the better developed area.

A provincial education foundation is being set up to help colleges and universities train the scientific and technical personnel needed by the province.

### Northwest Region

#### \*Ningxia People's Procuratorate Work Report

95CM0350A Yinchuan NINGXIA RIBAO in Chinese  
11 May 95 p 3

[Report by Liu Xingde (2692 1840 1795), deputy procurator general of Ningxia Hui Autonomous Region, to the third session of the region's seventh People's Congress on 9 April 1995: "Procuratorial Organs Intensify War Against Corruption, Bribery, and Serious Crime"]

[FBIS Translated Excerpt] [passage omitted]

1. We concentrated resources on investigating and dealing with serious crime, such as major and significant cases involving corruption and bribery, and pushed the war against corruption to a higher level.

In 1994 the war on corruption saw progress in depth. Procuratorates at all levels in the region earnestly carried out plans developed by the CPC Central Committee and the regional CPC committee and made anticorruption work the top priority of procuratorial organs. Because of painstaking organization and early planning, the investigation of corruption and bribery cases kept up a strong momentum. During the first quarter, procuratorial organs throughout the region placed 100 cases on file for investigation and prosecution, 10 times the number in the same period in 1993. Following the third meeting of the Central Discipline Commission, the telephone conference of the central political commission, and the 4th Plenum of the 14th CPC Central Committee, procuratorial organs at all levels conscientiously mobilized all procuratorial cadres and policemen to study and put into effect the spirit of the plenary session, unify their thinking, and rouse themselves with inspiration. Measures were taken to carry out the campaigns aggressively. Every effort was made to publicize the campaigns and fill the masses with enthusiasm. Leads for the cases were investigated with enhanced vigor.

The rates at which cases were closed or successfully prosecuted went up. A procurator general-responsibility system was instituted. A system was adopted whereby major and significant cases were handled at different levels. Work was prioritized, with most resources going to investigation of cases. The investigation of major and significant cases was given strengthened leadership and improved coordination in order to realize the benefit of procuratorial organs at different levels working together. The standard of investigative work was raised steadily to enhance our ability to crack cases and gather evidence to convict criminals. Our drive to investigate and prosecute corruption and bribery cases scored new successes. According to statistics, procuratorial organs in the region received 670 cases of economic crime in 1994, 9.7 percent more than in 1993; 301 cases were placed on file for investigation, up 21.9 percent from a year ago; and 347 people were prosecuted, an increase of 9.8 percent. Among the 301 cases, 197, or 65.4 percent, involved bribery and corruption. By solving these cases, we recovered 6.8848 million yuan in economic losses for the state and collectives, a gain of 44.1 percent over 1993. Of the 301 cases, 270 were closed upon the completion of investigation; 105 people were charged in connection with the corruption and bribery cases, 47.9 percent of all people investigated in those cases; 73 people were exempt from charges, 33.3 percent; and 3 people were not charged, or 1.8 percent. Charges were dropped against 37 people, or 16.9 percent.

1. There was a sharp increase in the number of major cases investigated. Procuratorial organs in the region placed 199 cases of serious economic crime on file for investigation and prosecution, 39.5 percent of all cases placed on file, an increase of 35.2 percent compared with 1993. Among the 199 cases were 77 cases each involving sums between 10,000 yuan and 50,000 yuan, 26 cases each involving between 50,000 and 100,000 yuan, 15 cases each involving more than 100,000 yuan, and 1 case involving more than 500,000 yuan.

2. Considerable progress was made in the investigation of significant cases in which leading cadres above the county and departmental levels broke the law. Procuratorial organs in the region investigated 24 leading cadres at county or departmental level in all 1994, an increase of 200 percent over 1993.

3. The investigation of the criminal activities of workers in key departments was remarkably successful. Procuratorial organs throughout the region made the investigation of crime committed by leading bodies in the government or the party, administrative and law-enforcement organs, judicial organs, and economic management agencies a priority and cracked down hard on them. For the year as a whole, 151 cases were placed

on file for investigation and prosecution, 50.2 percent of all cases placed on file; 168 individuals were involved in these cases, 48.4 percent of all people implicated in the cases placed on file. Of these 168 people, 21 were from party and government organs, 12.5 percent of all people involved in cases placed on file; 15 were from administrative or law-enforcement organs, 8.9 percent; 11 were from judicial organs, 6.6 percent; and 121 were from economic-management agencies, 72 percent.

4. Procuratorial organs probed deeply into hidden or related cases, worked endlessly to multiply their successes, and launched mini-campaigns against corruption and bribery in selected areas. Even as they went after cases within enterprises about which the masses had complained the most, procuratorial organs everywhere were careful to follow the vine to get the melon, that is, they used cases that had been solved as the lead to track down other related criminal activities. Because of such exhaustive probing, they brought to light a number of shocking and high-profile cases and amplified their achievements in the process. In investigating crime within enterprises, all procuratorial organs steadfastly used a mix of offensive with defensive tactics and served economic construction diligently. Targeting the problems uncovered in their investigations, they wasted no time in putting forward procuratorial suggestions and helping enterprises improve their rules and practices, tighten management, plug loopholes, and expedite the transformation of their operating mechanism. Some procuratorates even helped enterprises recover economic losses and solved their cash-flow difficulties. In so doing, they did much to shore up public confidence and spur economic development.

Continuing their past effort, procuratorial organs in the region have further strengthened and improved preliminary investigative work since the beginning of 1995 and gone all out to raise the case-solution rate. Meanwhile, the investigation of major and significant cases has been given stronger centralized leadership and better coordination and guidance. A host of high-profile cases involving serious economic crime such as corruption and bribery were solved. Between January and late February, 73 cases were received, of which 31, or 56.2 percent, were placed on file for investigation and prosecution. Among them were 10 major cases and 4 significant cases, making up 31.7 percent of all cases placed on file.

Procuratorial organs in our region were able to investigate many more cases last year with outstanding results because the CPC Central Committee offered sound leadership, governments and party committees at all levels in the region took crime most seriously, the masses were most supportive, and the war on corruption reached



deeper and deeper levels. Investigating and prosecuting criminals in accordance with the law is enormously significant for protecting the image of the party and the government, promoting honesty in government, and ensuring the smooth execution of reform and the open policy and success in economic construction. Judging from the cases investigated by procuratorial organs, economic crime today is characterized by the trading of power for money, but it has other new features as well. One, criminals are getting greedier and readier to take risk. Two, they try to take advantage of the loopholes in reform and the open policy and come up with endless new ways of committing a crime. Three, crime is increasing more rapidly in key economic departments, economic-management departments, judicial organs, and law-enforcement organs. Four, some criminals try to pave their way with money by lining up patrons among government functionaries to weave a safety net for themselves. Five, criminal methods of operation are becoming more technical and professional. Already the computer and other technologies have made their debut as means of committing a crime. Six, what appears as a minor case often leads to a major case, behind which may lurk a significant case. Seven, intersector, interregional crime is on the rise. Hidden cases and chain cases are becoming a common phenomenon. All of this shows that although criminals who commit bribery and corruption make up a tiny minority of all government personnel, they pose a danger that cannot be ignored. The war on corruption is long-term and complex. The task of investigating major and significant cases remains a daunting one. We must continue to implement the policy of "grasp with two hands, both hands firmly" and establish firmly in our heads the idea of fighting a prolonged war. But we must win each battle in every stage, handle cases conscientiously and investigate major and significant cases persistently and in a thoroughgoing manner.

2. We cracked down on serious cases that violated the criminal code. Worked hard to safeguard social stability.

In 1994, procuratorial organs in the region firmly made it another focus of procuratorial work to crack down hard and swiftly in accordance with the law on serious cases that violated the criminal code. The crackdown on criminal cases was treated as a major political task vital to stability and was tackled effectively and aggressively. Regionwide, public security organs requested that 4,021 people be arrested; permission was granted to arrest 3,500 people, up 8.1 percent and 9.3 percent, respec-

tively, from 1993. Of the 4,280 people handed over to procuratorial organs by public security organs for investigation and possible prosecution, charges were formally filed against 3,485 people, up 12.2 percent and 14.7 percent, respectively, over 1993.

Procuratorial organs in the region joined forces with public security organs and courts to crack down on those who endangered social law and order, targeting from the start violent criminals such as murderers, armed robbers, and car-jackers; criminals who committed grand larceny; criminals who set up roadblocks illegally, trafficked in drugs, or abducted and sold women and children; and the heads of criminal gangs each with their own turf and their partners. According to statistics, procuratorial organs in the region arrested a total of 2,072 people as a result of two "crackdowns," including 766 implicated in egregious cases.

Procuratorial organs took an active part in specialized campaigns and earnestly carried out the "Decision on Severely Punishing Criminals Who Seriously Damage the Economy," "Decision on Punishing Criminals Who Smuggle, Manufacture, Sell, and Disseminate Pornographic Materials," and the "Circular on Severely Dealing With Illegal Publishing Activities in Accordance with the Law," all adopted by the standing committee of the People's Congress. Those who manufactured and trafficked in pornographic materials and those who broke the law by engaging in illegal publishing and printing activities or by selling the materials thus produced were severely and swiftly dealt with in accordance with the law under the "severe and swift" policy.

Procuratorial organs have earnestly lived up to the spirit of the national work conference on comprehensive treatment to safeguard rural social law and order. Under the leadership of local party committees and rectification-leading groups and with the close cooperation of other political and legal departments, procuratorial organs took severe measures against criminal gangs and local hooligans who had been terrorizing a particular locality and arrested and prosecuted a number of serious criminals who had been tyrannizing the villages and making trouble for the people. Furthermore, procuratorial organs have helped shake up rural grass-roots organizations with glaring law and order problems and promoted rural stability. Procuratorates at all levels also integrated the crackdown on crime with comprehensive treatment during the procuratorial stage. The results were socially beneficial. [passage omitted]

**XINHUA Carries Report on Taiwan Commentary**  
*OW2407111895 Beijing XINHUA in English*  
1000 GMT 24 Jul 95

[FBIS Transcribed Text] Beijing, July 24 (XINHUA) — The PEOPLE'S DAILY [RENMIN RIBAO] July 25 carries a second commentary by commentators of the PEOPLE'S DAILY and XINHUA NEWS AGENCY on Li Teng-hui's speech at Cornell University of the United States.

The commentary points out that, the "expanding living space internationally" Li Teng-hui has talked a lot about is to separate Taiwan from China, which is not only against the common interests and aspirations of the people on the two sides of the Taiwan Strait, but also against the forward-going historical tides. The Chinese people will never allow it to happen, nor will all the people in the world who love peace.

The commentary says that it obviously runs against the reality that, if one says Taiwan doesn't have space of existence in the international community today. Li Teng-hui himself once said in a speech, Taiwan maintains today very close relations of economic trade and cultural exchanges with many countries, and he also listed a number of figures. Although Li Teng-hui was exaggerating to some extent, his words serve to prove that as a part of China, Taiwan does have "space of existence in the international community."

The commentary points out that Jiang Zemin, General Secretary of the Central Committee of the Communist Party of China and Chinese President, pointed out more clearly in his speech on the eve of the Spring Festival this year, that we do not challenge the development of non-governmental economic and cultural ties by Taiwan with other countries.

In the same speech, President Jiang Zemin also demanded Chinese agencies stationed abroad strengthen their ties with compatriots from Taiwan, listen to their views and demands, be concerned with and take into account their interests and make every effort to help them with their problems. This demonstrates that Taiwan compatriots not only have adequate space of existence in the international community, they can also enjoy the caring and help from the motherland everywhere around the world as all Chinese do.

The commentary says that, however, what Li Teng-hui wants is not this kind of living space in the international community. What he wants is to "show the existence of the Republic of China on Taiwan" to the international world, that is to create "two Chinas," "one China, one Taiwan," and to seek international recognition of "the independence of Taiwan."

Li Teng-hui visited the United States this time just for the purpose of presenting Taiwan as "a sovereign state" in the international society, the commentary says.

Recently, the Taiwan authorities went so far as to declare publicly their intention to buy "the membership of the United Nations" for one billion U.S. dollars.

In a word, as long as they can create "two Chinas," "one China, one Taiwan," and pave the way for "the independence of Taiwan" in the world, they will do so at any cost and by any means.

The commentary says that Li Teng-hui's "expanding living space internationally" obviously runs counter to the principle of "one China," to the goal of the two sides of the Taiwan Strait moving toward a peaceful reunification, and to people's hope of maintaining peace in Asia and in the rest of the world. We are firmly opposed to this kind of "expansion of international living space".

The commentary also says that, Li Teng-hui declared that he will "do his utmost to 'demand the impossible'" for "expanding living space internationally." Thus, he began challenging or, "demanding the impossible" from, international law that prevents him from creating "two Chinas," the universally acknowledged norms of international relations and the state sovereignty and territorial integrity.

The commentary stresses that there is only one China in the world. The government of the People's Republic of China is the sole legitimate government of China, and the sole representative of China in the United Nations. Taiwan is an inalienable part of China. This is the fact that can not be changed by any challenges in the world. The challenge of Li Teng-hui is doomed to failure eventually.

The commentary says in conclusion that the dignity and honor as a Chinese in the world today never existed at any time in the past. The prosperity and strength of the motherland is the honor and backing for all Chinese including the Taiwan compatriots. We sincerely hope the peaceful reunification of the motherland can be accomplished at an early date so that Taiwan compatriots, wherever they are around the world, can truly and fully enjoy their due dignity and honor. Li Teng-hui's "expanding living space internationally" will only lead Taiwan into a blind alley.

**Editorial Blames Li for Worsening Strait Ties**

*HK2507054395 Hong Kong WEN WEI PO in Chinese  
21 Jul 95 p A2*

[Editorial: "Li Teng-hui's Pursuit of Taiwan Independence Has Worsened Cross-Strait Relations"]

[FBIS Translated Text] Commencing today the People's Liberation Army [PLA] will conduct missile launching drill at the high seas of the East China Sea for eight days. This is a normal military exercise. When this news was announced, however, the Taiwan authorities revealed their guilty conscience. Hong Kong media pointed out that the guilty conscience of the Taiwan authorities is related to a series of events following Li Teng-hui's visit to the United States, which has worsened [e hua 1921 0553] cross-strait ties.

After the announcement made by XINHUA, Taiwan's stock market dived sharply. Thrown into confusion, the Taiwan authorities hurriedly held meetings while putting on a show of calm. As a matter of fact, Taiwan residents are vigilant against the harm of Li Teng-hui's pursuit of Taiwan independence [li deng hui gao tai du di wei hai xing 2621 4098 6540 2269 0669 3747 4104 0604 1364 1840]. The sharp drop in Taiwan's stock market is the reaction of the island's popular will to Li Teng-hui's perverse acts [dao xing ni shi 0227 5887 6627 2457]. Public opinion in Hong Kong and Taiwan universally considers that the mainland media criticism of the Taiwan independence activities pursued by Li Teng-hui has become increasingly stern in recent months. Foreign Ministry spokesman Shen Guofang warned yesterday: "If the Taiwan authorities obstinately cling to their course and collaborate with the international anti-China forces to carry out activities of splitting the motherland, we will not sit by idly and remain indifferent." This shows that China will never allow any foreign force to collaborate with the Taiwan independence forces on the island and undermine China's peaceful reunification.

The tendency of Taiwan independence has been increasingly apparent since Li Teng-hui assumed office. Li Teng-hui first lifted the restrictions on entry of Taiwan independence elements who had fled abroad, openly backing the activities of Taiwan independence, and acted in collusion with the Democratic Progressive Party [DPP], which rapidly expanded the Taiwan independence forces on the island. During his conversation with Japanese writer Shiba Totaro at the end of March 1994, Li Teng-hui began undisguisedly expressing his position against "one China," believing that it would be a "strange dream" to regard Taiwan as part of the PRC. He also used "Exodus" to indicate his determination to go in for Taiwan independence. Since the beginning of

1995, Li Teng-hui further intensified his activities of splitting China. It is particularly dangerous that when Li Teng-hui pursued the Taiwan independence line, he adopted double-dealing. On the one hand, he said that he insisted on one China and unification; but on the other hand, he wantonly advocated "splittism and separate rule across the strait" and "Taiwan and the mainland are two political entities not subordinate to each other." Li Teng-hui has attempted to legalize, standardize, and extend the temporary state of splittism to attain his objective of splitting China. For this reason, Li Teng-hui responded to the DPP's request, introduced "revision of the constitution" in Taiwan's Penghu, Jinmen, and Matsu islands as well as "congressional elections," and planned a "presidential election" in the coming year, changing the DPP's "self-determination by residents" into "popular sovereignty" in an attempt to legally constitute "Taiwan independence" through the "presidential election." Even in economic policies, Li Teng-hui proposed the "policy of advancing southward" and "cooling down investment in the mainland" in light of the request of the "Taiwan independence alliance" in a bid to hinder increasing cross-strait nongovernmental economic and trade contacts and cooperation. Li Teng-hui has overtly and covertly done things which even the elements on the island advocating Taiwan independence dare not do. At the same time, Li Teng-hui played the tricks of "vacation diplomacy," "transit diplomacy," "sports diplomacy," "monetary diplomacy," and "alumni diplomacy" in an attempt to use money to develop "international space" for Taiwan independence, enable Taiwan to "return to the United Nations," and realize his dream of creating "two China's." In particular, Li Teng-hui's trip to the United States catered to the United States' "Taiwan card" and "encirclement and blocking" [wei du 0953 1035] of China. Acting in collusion with the forces in the United States hostile to China, Li Teng-hui fully revealed his true colors of collaborating with foreign forces to betray the interests of the Chinese nation.

To further slide down the road of Taiwan independence, Li Teng-hui also wantonly created an atmosphere of cross-strait tension and confrontation. On the eve of his "visit" to the United States, the Taiwan authorities conducted the so-called military exercises of "counterattacking mainland offensives" on four occasions in less than 10 days; Li Teng-hui attended three of these exercises and made a clamor, inciting Taiwan compatriots' hostility toward the motherland. Since Li Teng-hui assumed office, the Taiwan authorities have spared no expense to purchase weapons from other countries and accelerate the upgrading of Taiwan's military equipment. Later, the serious incidents of Jinmen and Matsu garrisoned forces opening fire and shooting at mainland fishermen occurred. Facts have proved that Li Teng-hui



is brazenly "taking up the challenge of anything impossible." His behavior of splitting China under the cover of double-dealing shows that he is the most dangerous element advocating Taiwan independence on the island [tai wan dao nei zui wei xian di tai du fen zi 0669 3494 1497 0355 2584 0604 7145 4104 0669 3747 0433 1311].

Regarding the PLA's missile launching drill, Li Teng-hui went so far as to say that it will "not harm Taiwan's sovereignty." He used a normal mainland military exercise to dish out his so-called "Taiwan sovereignty," which indicates that he has ulterior motives. Li Teng-hui also asserted that Taiwan will continue to pursue its "practical diplomacy" and develop "space for international existence." This also indicates that Li Teng-hui refuses to change from his road to Taiwan independence.

As to Taiwan's "space for existence," this depends entirely on its relaxed and harmonious relations with the mainland. Taiwan's economic development and foreign exchange accumulated over the past 15 years have benefited to a great extent from Taiwan's economic and trade contacts and cooperation with the mainland. Li Teng-hui has cheated Taiwan residents, saying that

the mainland "suppressed" and "blocked" Taiwan's "space for existence." As a matter of fact, the mainland wanted to "suppress" and "block" Li Teng-hui's Taiwan independence behavior. It is Li Teng-hui's behavior of Taiwan independence, which has actually ruined Taiwan's "space for existence." The relaxed cross-strait situation damaged by Li Teng-hui itself harms the interests of Taiwan residents and will strangle Taiwan's economic development. If Taiwan's ties with the mainland are brought to a deadlock, it will inevitably damage Taiwan's investment environment and harm the interests of Taiwan's economic exchanges with the mainland. Li Teng-hui will not succeed in his attempt to use double-dealing to apply foreign influence, clamor for a "return to the United Nations," and pursue Taiwan independence on the one hand, and use "pursuit of peaceful reunification" as the smokescreen to cover his Taiwan independence activities and deceive the Taiwan residents on the other hand. The Chinese people will not sit idly by and allow the activities of splitting China to run amok. Li Teng-hui must wake up to and escape disaster at the last minute [bi xu xuan ya le ma 1801 7312 2038 1509 0519 7456].

**Navy Starts War Games Off Northern Coast**

*BK2507091895 Hong Kong AFP in English*  
*0903 GMT 25 Jul 95*

[FBIS Transcribed Text] Taipei, July 25 (AFP) — Taiwan has started its own Navy war games, firing shells off the island's northern coast while China pursued its controversial missile exercises nearby, reports said Tuesday.

The nationalist Navy fired cannon shells Tuesday at the start of a four-day drill, some 20 nautical miles off the northeast fishing town of Suao, the ruling Kuomintang (KMT) CENTRAL DAILY NEWS said.

The drill will last until Friday, when China is to end its week-long missile exercise, the newspaper said. The rival exercises come at a time of heightening tension between the two. China has attacked President Li Teng-hui for seeking independence and threatened military force if such a step was taken.

China fired two more missiles into the sea off the northern tip of Taiwan Monday bringing to six the number of missiles fired since it started its exercises Friday, reports said.

A military source, speaking on condition of anonymity, told AFP the nationalist naval exercise — involving warships, cannon shell and guns — is a routine exercise, which has nothing to do with China's ongoing missile drill near Taiwan's Pengchiayu Island.

The source, however, declined to give the number and type of the ships and weapons used.

Both the Defense Ministry and the Navy headquarters were reluctant to confirm the reports.

Meanwhile, leaders of the main opposition Democratic Progressive Party (DPP) leaders went to the impact area where China is conducting its missile drill in separate protest boats Tuesday.

DPP presidential hopeful Hsu Hsin-liang left northern Ilan port early Tuesday with a group of journalists and protesters on board.

In a separate boat, painted with slogans "We want peace" and "Against military threat," DPP chairman Shih Ming-teh, leading other party officials and three anti-nuclear activists, reached the impact area from the northeastern fishing port of Aoti, a DPP press statement said.

Reports Tuesday said the nationalist military had not heightened its state-of-alert after China's Monday missile tests.

The Defense Ministry here did not immediately confirm the reports, but the mass-circulation UNITED DAILY NEWS and the CHINA TIMES, quoting unnamed military sources, said the missiles were fired early Monday and landed within target area 150 kilometers (94 miles) off Taiwan's northern shore.

The UNITED DAILY said medium-range Dong Feng-21 ballistic missiles were fired at 2:10 a.m. and 2:30 a.m. Taipei time Monday (1810 and 1830 GMT Sunday) from China's northeastern province of Jilin.

The paper, quoting an unnamed military official, said China had used a different type of missile this time to prove it is capable of firing missiles of different ranges at any time with high accuracy.

On Sunday, Taiwan's defense ministry confirmed that China fired two missiles on Friday, and two on Saturday. One of the two fired on Friday failed to reach its targeted site.

The UNITED DAILY said after China fired the missiles Monday, Washington, which exchanges intelligence information with Taipei, almost immediately detected it and informed Taiwan which decided not to raise its level of alert.

The week-long missile drill, which the government here said was served as a warning to Taiwan against any of its independence moves, has been conducted for the first time nearest to Taiwan.

Beijing, which views Taiwan as a renegade province after the end of the 1949 Chinese civil war, has been enraged by Taiwan's sending its president and premier abroad to seek international recognition.

It regards the moves as Taiwan's attempt to create "two Chinas" or promote Taiwan's independence, a charge brushed off by the government here, which says they maintain a policy of "one China."

The nationalists who were defeated by the Chinese communists in a civil war in 1949 and fled here to form a government still consider themselves as the legitimate representative of all of China.

"What the communists do not only endanger the safety in the international sea, but also affect the stability in the Taiwan Strait," DPP protester, Hsu, told reporters here before leaving on his protest boat.

**Governor Sung Condemns Beijing Missile Tests***OW2407131895 Taipei CNA in English  
0920 GMT 24 Jul 95*

[By Danielle Yang]

[FBIS Transcribed Text] Taipei, July 24 (CNA) — Taiwan Governor Sung Chu-yu Monday condemned Beijing's on-going missile tests in the East China Sea and called for an immediate end to the exercises.

Sung made the remarks after hearing a report on public opinion regarding the missile tests at a provincial government meeting Monday.

Sung said Beijing's missile exercises are tantamount to political blackmail and piracy. He also reminded the world about Beijing's bloody suppression of pro-democracy protesters in Tiananmen Square in June 1989.

Mainland China's exercise has affected the safety and earnings of Taiwan's fishermen, Sung said, issuing a strong protest against the tests.

Meanwhile, the Chinese National Federation of Industries (CNFI) said Beijing's missile testing has caused unrest among Taiwan's eight million-strong labor force, affecting investment willingness and employment on the island.

The CNFI urged Beijing in a news release to immediately stop the missile tests.

**Spokesman Calls for Resumed Cross-Strait Talks***BK2507100495 Hong Kong AFP in English  
0949 GMT 25 Jul 95*

[FBIS Transcribed Text] Taipei, July 25 (AFP) — Taiwan's ruling Kuomintang (KMT) party on Tuesday call on China to resume talks and end its virtually daily verbal attacks on President Li Teng-hui.

"The Chinese communists should ... reopen the negotiation channel in order to maintain friendly cross-strait interactions," KMT spokesman Hansen Chien said.

He also urged China to stop its daily attack against Lee, accusing Beijing of mounting a campaign against the Taiwan leader.

"The president has closely followed the national policy of eventual reunification between Taiwan and mainland China, and accusations against him for promoting an independent Taiwan are flatly baseless and untrue," Chien said.

Beijing renewed its criticism of Lee on Monday after a vitriolic attack on him 24 hours earlier. China continued to accuse the Taiwan president of using the cover of

expanding the island's international maneuvering to promote independence.

Lee's overseas trips between February 1994 and June 1995, in the guise of vacation, have been seen by China as his moves to seek international recognition of an independent Taiwan.

His US trip in June especially irked Beijing, which retaliated by suspending high-level talks with Taiwan, increasing inspection of Taiwanese fishing boats in international waters, and launching a missile drill near Taiwan.

Taiwan and China separated after the end of the 1949 Chinese civil war, during which nationalist forces were driven off the mainland by the Chinese communists.

Local press said the criticism is expected to continue until parliamentary elections at the end of this year and presidential polls next March.

**Authorities Urged To Stop Menacing Trawlers***OW2407120995 Taipei CNA in English  
0932 GMT 24 Jul 95*

[By Debbie Kuo]

[FBIS Transcribed Text] Taipei, July 24 (CNA) — The Strait Exchange Foundation (SEF) on Monday reiterated Taiwan's indignation over Mainland Chinese authorities' illegal interception of Taiwan fishing boats on the open sea earlier this month.

Between July 11 and July 17, five Taiwan trawlers were harassed and intercepted by mainland marine police in the South China Sea, SEF officials quoted fishery industry sources as saying.

The five incidents of harassment, conducted illegally and forcefully, seriously violated the traveling and operational freedom of Taiwan fishing boats, and undermined civilian interaction across the Taiwan strait, SEF officials said in a letter to their counterparts at the Beijing-based Association for Relations Across the Taiwan Strait (ARATS).

The SEF conveyed Taiwan's anger and protest against Mainland Chinese harassment on the sea earlier this month after the Sheng Li Tsai No. 6, Chua Man No. 626, and Chang Man No. 6 were intercepted by mainland marine police on July 11 and July 12. However, the protest fell on deaf ears.

Two other Taiwan fishing trawlers, the Chin Man Hsing No. 6 and Feng Fu No. 6 were stopped on July 16 and 17 respectively in Taiwan fishing grounds and checked by the mainland police.



**\*Letter to Editor Reviews Spratly Islands Issue**  
95CM0317B Taipei HEIPAI HSINWEN [TAIWAN  
WEEKLY] in Chinese 15 Apr 95 No 79, , p 5

[Letter to the editor by Yun Ch'eng (0061 4453): "The One China Trap of the Spratly Islands"]

[FBIS Translated Excerpt] [passage omitted] Exactly what stand should or can Taiwan adopt in the South China Sea dispute? In all fairness, Taiwan should not excessively advocate sovereignty in the South China Sea dispute. Otherwise, if things continue to develop, to uphold sovereignty, we will have to choose to collaborate with China. When that time comes, not only will we fall into the "one China" morass, we also will antagonize Southeast Asian countries and, thereby, help the enemy to dismember our southern orientation policy and to close in on Taiwan's international space.

No one can deny that Taiwan already occupies some islands and that Taiwan qualifies to sit at the negotiating table. But, using Taiwan's geographical position and the number of islands that Taiwan occupies with the idea of upholding sovereignty and becoming a respected party in the South China Sea dispute is essentially impossible unless we dare to dispatch troops to occupy twenty of the islands. Although strongly advocating sovereignty over the Spratly Islands, we must be careful not to lose something big for something small!

Taiwan's advantage in the South China Sea issue is money and technology. By means of money and technology, Taiwan can penetrate the bilateral or multilateral talks, promote Taiwan's detached position, and gradually be a force in the disputes. This plan is currently coming from the Central Committee of the Democratic Progressive Party. This is the way that a small country can exist on the international stage and avoid falling into the "one China" quagmire.

The attitude toward the Spratly Islands appears complicated, but actually it is not so. In other words, to stand with China with illusions of democracy is the most stupid choice for dealing with the Spratly issue! If we recognize that we are a small country, it is very clear how we should act. [passage omitted]

**\*Li Teng-hui Discusses Key Issues With Academics**  
95CM0317A Taipei HEIPAI HSINWEN [TAIWAN  
WEEKLY] in Chinese 29 Apr 95 No 81, , pp 24-25

[Article by Li I-jen (2621 5030 0088): "Predicting That It Will Be Hard for the Nonmainstream and the New

Party To Get Anywhere Reveals That Nothing Is Lost of Li Teng-hui's Self-Confidence"]

[FBIS Translated Excerpt] [passage omitted] President Li Teng-hui specifically selected the day following the pro-independence camp's major event commemorating the centennial of the Treaty of Shimonoseki and painstakingly arranged to meet with more than 30 well-known foreign and domestic scholars and news people participating in the international symposium on "100 Years Shimonoseki Treaty Anniversary—Taiwan's Destiny in Retrospect and Prospect." Among them were numerous well-known pro-independence scholars. This move of Li Teng-hui, especially after his recent series of bombardments by nonmainstream people, really caused outsiders to look at him in a rather new light. [passage omitted]

In this discussion that lasted from 4:30 on the afternoon of the 17th until nearly 6:00, Li Teng-hui first used Mandarin to deliver a prepared speech and followed by using entirely Taiwanese in conversing with people at the conference, fully revealing Li's optimism about Taiwan's future and his forward-looking views, but also causing the people present to sense that Li Teng-hui had a special air of being in charge.

Not long after this conversation began, Li Teng-hui said to the TZU-YU SHIH-PAO news people following him: "Do not publish what is said today!" But they were still not willing to give up this rare opportunity. The next day, it took up almost the whole page because the content of what Li had said still was "worth reading."

Such well-known pro-independence scholars as Huang Chao-t'ang and Hsu Shih-Kai posed questions one after the other, asking Li Teng-hui to think about Taiwan's younger generation and let Taiwan be independent so that current problems can be solved. Faced with this type of sensitive questioning, Li Teng-hui did not have too much of a reaction, but he emphasized that Taiwan's difficulties require time and patience and that all issues can be resolved.

In response to a question put by Cheng Ch'in-jen, president of the Taiwan University Professors Association, about the repeated disturbances of the nonmainstream and the New Party which would set the island in turmoil, Li Teng-hui, answered with complete confidence that the nonmainstream and the New Party will not get anywhere. This gang of people only knows how to make trouble. They do not make a contribution nor do they constitute a threat to Taiwan's future. Li Teng-hui also said that no one needs to be too worried about Taiwan's current situation. What should be done is already being done. There is no need to be pessimistic and no need to use extreme methods to deal with things.

Regarding Taiwan's sovereignty and the Chinese Communist threat, Li Teng-hui believes that the National Unification Guidelines are just used as guiding principles for improving relations with the Chinese Communists. The specific content of the Ten Major Principles is the most important part. Everyone might as well go ahead and read them carefully. [passage omitted]

Constitutional scholar Li Hung-hsi suggested that Li should use the spirit of the "New Ten Commandments" to lead the new constitutional movement and formulate a new constitution and now is a good opportunity to release the "constitutional revision balloon." And Professor Cheng Ch'in-jen also raised a similar question. Li Teng-hui replied that he understands the constitution and a great many articles need to be revised. This is a result of the current environment. After the direct election of the president should be a good time to revise the constitution. Li gave the analogy that a newly revised constitution is like building a "new empty house." Its current executive, judicial, and educational stipulations all need to be changed before we can have a substantial content. He said that when Japan revised its constitution, it also did it step by step.

Li Teng-hui was strongly critical of the fact that in the past textbooks were almost entirely Chinese. They lacked a local outlook and also lacked a world outlook. To exaggerate yourself is not rational cognition.

However, in the discussion Li Teng-hui mentioned that Lincoln freed the black slaves, resulting in his being shot to death by a black person. [sentence as published] This statement actually gave a scare to scholars sitting around Li. The meaning behind the words was that he would not hesitate to give his life for reform of Taiwan. But everyone hopes that the price paid will not be so high.

When Lin Chien-lien, editor-in-chief of TZU-YU SHIH-PAO, brought up the popular way of talking these days that none of the "three parties can hold a majority in the legislature" Li Teng-hui optimistically said that the strength of the Democratic Progressive Party and the New Party cannot be that great. So, he calculates that everyone believes that as long as the Kuomintang [KMT] does not miscalculate strategically, there will not be a situation where none of the three parties can achieve a majority in the legislature. Accordingly, he will not be "tricked by them." He also said that he himself has not yet said whether he will run or not, but people use the sincerity issue to stop him.

Hsiao Hsin-i, a scholar living in Canada, believes that there is no use in the KMT government insisting on upholding the one-China principle and calling this country the Republic of China on Taiwan. Our country

should change its name to Taiwan. Li Teng-hui said that it would be very difficult to change the country's name now. It is not possible. After a long time, we will talk about it again. But he emphasized that he does not favor changing the country's name. [passage omitted]

Another scholar, Wei Ch'i-lin, said: "As cross-strait relations deepen, if in the future we are tricked by the Chinese Communists, what do we do?" Li Teng-hui without the slightest hesitation answered: "The more trade between Taiwan and the mainland increases, the stakes will become even greater. If we gradually deal with the Chinese Communists, they will be willing to slowly back down and Taiwan will then have the possibility of entering the United Nations."

At the same time, Li Teng-hui expressed his lack of confidence in the so-called "Greater China Economic Sphere" advocated by some people. This is not seen as Taiwan's future hope. The Chinese mainland depends on a lot of capital from Taiwan and Hong Kong. Now with extremely serious inflation and numerous problems in mainland China, the situation there absolutely is not as good as it appears.

In answering Academia Sinica scholar Ch'iu Chao-lin's question regarding visiting the United States, Li Teng-hui said that because they want to express regrets Americans have more than once invited him to come, but he himself believes that it is not certain that he has to go to the United States. Did Northern Ireland's leader not go to the United States, because his going helped in the United States election? Li said, "If my going to the United States could help in the election, perhaps the United States would immediately let me come."

Li Teng-hui sharply denounced former Secretary of State Kissinger by saying that United States officials believe the set of deceptions that Kissinger left. The Department of State still continues to use them today, saying that any elevation in relations with Taiwan will harm United States relations with the Chinese Communists and will hurt United States interests in Asia. This way of speaking is all "crazy lies!" [passage omitted.]

#### **\*KMT Politician Advocates De Jure Independence**

95CM0317C Taipei HEIPAI HSINWEN [TAIWAN WEEKLY] in Chinese 8 Apr 95 No 78, p 44

[Article by Lin Yung-ch'ung (2651 3057 1504): "Yu Yueh-hsia Loudly Proclaims 'Taiwan Country,' Applause Ripples In and Out of the Provincial Assembly"]

[FBIS Translated Excerpt] [passage omitted] At the initial meeting of the first regular plenary session, called "the first session" of the Taiwan Provincial Assembly,

Kuomintang [KMT] assemblywoman Yu Yueh-hsia [3266 2588 7209] "cleaned her rifle and fired it," calling for "abolishing the province and establishing the Taiwan country." Democratic Progressive Party [DPP] members thought that she had showed courage, but KMT colleagues wondered if she had "gotten off track" a little bit. However, they privately agreed with what she had to say. Based on partisan positions, if someone brings up "Taiwan country," it is easy to think about the opposing political stand. The KMT at the present wants to be different from the DPP.

In recent years, in the provincial assembly's agenda, different party ideologies are rarely brought up. Instead, when pressure of the central government or the Legislative Yuan on the provincial government or the provincial assembly is encountered, both the party in power and those out of power, "in the same boat", oppose the central government. The clearest example of that was two years ago when the way that the Control Yuan was constituted (not selected by members of the provincial assembly and municipal councils) was changed; and the Ministry of Finance established northern, central, and southern district national tax subbureaus in Taiwan province. Outside of that, such topics as eliminating the province and establishing a Taiwan country did not often surface. It was in such a situation that on the afternoon of the 27th when Yu Yueh-hsia suddenly said the term "Taiwan country," everyone present was startled.

The majority of the KMT legislators believe that the issues of country designator or country name are for the Legislative Yuan to talk about. The provincial assembly is responsible for relatively simple public project bills. They usually do not want to talk about issues where basic responsibility cannot be determined. This phenomenon is described by outsiders as "comparative detail." However, some say that members of the provincial assembly lack the idealism to talk about unpleasant points. "They only know how to award projects." [passage omitted]

Yu Yueh-hsia believes that eliminating the province and establishing a Taiwan welfare state can resolve the language issue and dissolve provincial solidarity. Does our concept of favoring men more than women cause us to forget who our "grandmother" is? Actually, almost all of our "grandmothers" are Taiwanese. As for blood lines, we are even more Taiwanese. There is no need to distinguish dialects.

She also believes that internationally Taiwan's proper name is very important; and she is convinced that President Li Teng-hui and Premier Lien Chan both favor Taiwan becoming an independent "Taiwan country" in name and in fact. However, because of the KMT

position, those who are in power can not say it. The reason that she spoke out loudly is that she wants to wake up the KMT to make a new start. [passage omitted]

Actually, many KMT members of the provincial assembly privately admit that the times are different now. Since 1989, KMT representatives at every level have had a harder time getting elected; and their campaign issues and political views are getting ever closer to DPP demands. Yu Yueh-hsia revealed that when she talked about eliminating the province and establishing a Taiwan country in last years election, DPP candidates often complimented her; and many voters thought that she was more DPP than the DPP and voted in support of her. On the morning of the 28th (the day after the speech), scores of citizens telephoned or faxed her to commend her on expressing "the sentiments of the Taiwan people" in the assembly.

Regarding Yu Yueh-hsia's speech, the KMT provincial headquarters did not make any move to interfere. Party workers recognize that initiative is now very high among members of the provincial assembly and "there is no need to restrict it." Moreover, such topics as "establishing a Taiwan country" are no longer very sensitive issues.

#### Chiang To Attend APEC Ministerial Meeting

OW2407120695 Taipei CNA in English  
0938 GMT 24 Jul 95

[By Y.C. Tsai]

[FBIS Transcribed Text] Taipei, July 24 (CNA) — Economic Affairs Minister P.K. Chiang said Monday that he will attend the small and medium enterprise (SME) ministers' meeting of the Asia-Pacific Economic Cooperation (APEC) forum scheduled for Sept. 14-15 in Adelaide, southern Australia.

Chiang pointed out that he will take the opportunity to hold bilateral talks with his counterparts from other APEC members on Taiwan's bid to join the World Trade Organization and other trade topics.

"I will also meet with Taiwan investors in that part of the world," he noted.

With forging SME action guidelines as its theme, the ministerial meeting will focus discussion on SME finance, manpower resources, expertise, information acquisition and market opening, Chiang elaborated.

Chiang will be the moderator of the panel discussion on SME information acquisition.

Prior to the ministerial gathering, a meeting on SME linkup networks will be held on Sept. 12-13, during



which a forum, a display and a joint meeting between SMEs and ministers will take place.

Chiang said that the Ministry of Economic Affairs will invite domestic manufacturers to organize a mission for participation in the APEC activities.

Founded in 1989, APEC groups Australia, Brunei, Canada, Chile, Mainland China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, South Korea, Taiwan, Thailand and the United States.

#### **Japan, U.S. Dominate Construction Contracts**

OW2407132195 Taipei CNA in English  
0928 GMT 24 Jul 95

[By Y.C. Tsai]

[FBIS Transcribed Text] Taipei, July 24 (CNA) — Japan and the United States have dominated Taiwan's public construction market in the past seven years, jointly grabbing a market share of 60 percent, the Executive Yuan's Public Construction Commission said Monday.

Commission statistics show that foreign contractors undertook about NT [new Taiwan] \$197.6 billion (US\$7.48 billion) worth of construction jobs in Taiwan between 1988 and 1994.

Of the amount, Japan took the biggest portion of NT\$68.129 billion (US\$2.58 billion), followed by the United States' NT\$50.026 billion (US\$1.89 billion), Germany's NT\$27.742 billion (US\$1.05 billion), France's NT\$16.899 billion (US\$640.11 million) and Denmark's NT\$10.284 billion (US\$389.54 million).

Other major countries undertaking construction jobs in the seven-year period included Singapore, Britain, Italy, South Korea, the Czech Republic, Switzerland, Austria and Belgium.

A breakdown of the foreign construction contracts shows that construction itself commanded the lion's share of 51.22 percent, equipment procurement accounted for 42.24 percent and counseling services accounted for the remaining 6.54 percent.

Except for American contractors who focused their business on equipment procurement, contractors from Japan and other countries were mainly engaged in construction.

Meanwhile, commission chairman Chen Yu said that the commission will release the first-ever public construction report on Thursday, which will include the budget for Taiwan's public construction projects in fiscal year 1996 which began on July 1.

The systematic publication of the public construction budget, which will help pave the way for more transparent government policies, will enable contractors at home and abroad to assess their trade opportunities for the coming year, Chen elaborated.

Both the number and amount of construction contracts to be undertaken by foreign contractors are expected to increase in the years ahead as Taiwan's goals to join the World Trade Organization and to become an Asia-Pacific business operations center will help push up foreign contractors' economic activities in Taiwan, he pointed out.

#### **Austria Parliamentarian Views Ties**

OW2207104995 Taipei CNA in English  
0843 GMT 22 Jul 95

[By C.L. Ou and Danielle Yang]

[FBIS Transcribed Text] Vienna, July 21 (CNA) — Austria parliamentarian Alfred Brader told a group of visiting ROC Legislative Yuan officials that Austria hopes to strengthen cultural, educational and technological ties with Taiwan.

Brader made the remarks Friday while meeting with Lo Cheng-tien, vice secretary-general of the Republic of China (ROC)'s Legislative Yuan. Lo is leading a 17-member delegation to study parliamentary operations in Europe.

Brader told Lo that Austria, after joining the European Union early this year, is trying to increase contact with Asia to understand economic and political developments there.

Brader belongs to the Austrian People's Party, the second largest party in the central European country. He said his party hopes to expand ties with the ROC.

Brader is interested in the democratization process in Taiwan, while Lo said Taiwan is seeking to play a greater role in the international community and hopes foreign friends can render support to the island.

After Austria, Lo and his delegation members will proceed to Hungary and the Czech Republic.

#### **Italy To Improve Visa Processing**

OW2407130495 Taipei CNA in English  
0910 GMT 24 Jul 95

[By Daniel Yang]

[FBIS Transcribed Text] Taipei, July 24 (CNA) — Italian Foreign Ministry officials have promised to improve visa processing for Taiwan travelers wishing

to visit Italy, according to David Hong, director of the ROC [Republic of China] Foreign Ministry's consular affairs office.

Hong made the remarks Monday after returning from Italy where he met with Italian officials, including former Italian Foreign Minister Antonio Martino, to discuss the visa issue.

During the meeting, Hong suggested Italy consider extending landing visa or visa-free service to Taiwan travelers and asked Italy to directly paste visas in ROC passports to save time.

Hong also pointed out that Taiwan is preparing to extend visa-free treatment to Italy, and Italy has already agreed to reciprocate after it joins the Schengen convention on Jan. 1, 1996.

Schengen convention members allow single-visa travel to any convention signatory nation. The convention currently includes France, Germany, Holland, Belgium, Luxembourg, Spain and Portugal.

Martino agreed to shorten the visa processing time to one to two weeks from the current three weeks.

ROC representative to Italy Joe Hung and Francias Li, director of the Foreign Ministry's European Affairs Department, also attended the meeting. They noted that more Taiwan travelers are expected to visit Italy now that China Airlines is offering direct flight services from Taipei to Rome.

Both Hung and Li said visa processing difficulties will hinder Taiwan travelers wishing to visit Italy. Taiwan travelers made some 60,000 visits to Italy last year.

#### **Fifteen Countries Propose Support for UN Bid**

OW2107130495 Taipei CNA in English  
0938 GMT 21 Jul 95

[By Sofia Wu]

[FBIS Transcribed Text] Taipei, July 21 (CNA) — Fifteen of the Republic of China [ROC]'s diplomatic allies have presented a proposal urging the United Nations General Assembly to set up a special committee to study ways to admit Taiwan to the world body, the Ministry of Foreign Affairs said Friday.

UN representatives from the 15 countries wrote UN secretary-general Butrus Butrus-Ghali on July 18 asking him to include the proposal in the agenda of the 50th Plenary Session of the General Assembly scheduled to open in September.

This was the third consecutive year that such a proposal has been presented by Taiwan's diplomatic allies. The UN rejected the proposal in the previous two years.

The proposal said the UN should make an extensive, in-depth study on the exceptional situation of the ROC in the international context, based on the principle of membership universality and in accordance with the established model of parallel representation of divided countries in the UN.

The representatives also attached an explanatory memorandum to their joint letter to Butrus-Ghali, detailing why they have made the proposal.

Noting that UN resolution No. 2758 gave the China seat to the People's Republic of China, the representatives said the resolution failed to completely resolve UN representation problems resulting from China's division since 1949. Worse yet, they said, the resolution has hurt the ROC government's and its 21 million people's basic right to play a normal role in international activities.

"At this time when the UN is celebrating its 50th anniversary, it appears to be particularly unreasonable that the roc, a UN founding member, has continually been shut out of the UN," the representatives noted. "We therefore demand that the UN General Assembly set up a special committee to study the issue and present feasible suggestions at the next general assembly plenary session."

The 15 representatives are from Swaziland, Nicaragua, Costa Rica, Grenada, Niger, Panama, the Dominican Republic, the Commonwealth of Dominica, Solomon Islands, Guatemala, St. Lucia, St. Vincent and the Grenadines, Burkina Faso, Guinea-Bissau and the Central African Republic.

"We deeply appreciate the 15 countries' firm support for our bid to join the UN," the ROC Ministry of Foreign Affairs said in a news release. "We also express our highest esteem for the 15 countries' moral courage to uphold justice and to resist Beijing's intimidation."

The ministry said the UN Resolution No. 2758 passed in 1971 was a product of ideological confrontation during the Cold War era. "The resolution has become obsolete because the world situation has changed fundamentally in the past 24 years," the ministry noted, adding the resolution does not comply with the current state of China, which has been divided and ruled by two separate governments since 1949.

"Now is the time for the international community and all UN members to face the reality and to explore feasible ways to make up for the damage inflicted by Resolution No. 2758 on the ROC and its 21 million people so that the ROC can again take part in the UN activities to contribute to the well-being of all people around the world," the statement said.

It lamented that for years, the ROC has only been able to provide development aid to other countries on a bilateral basis and cannot participate in multilateral international aid programs simply because it is no longer a UN member.

Against this backdrop, the ministry said, the ROC has proposed to set up a US\$1 billion fund to help needy countries after it is admitted to the UN. "The proposal mainly aims to underscore our desire to contribute more to the international society under a multilateral framework," it stressed.

"We regret that Communist Chinese leaders have misinterpreted our desire to help other countries as an offer to buy into the UN," the ministry said. "Such an accusation has not only exposed Beijing's disdain of the value of mutual help in the international community but also revealed its evil nature by purposely distorting our goodwill."

While seeking to join the UN, the ministry said, the ROC government has no intention to challenge Beijing's seat in the UN and will continue promoting China's unification under freedom and democracy. "We hope Beijing authorities will stop blocking our presence in the world arena and adopt a pragmatic attitude in dealing with us," the ministry said.

It added the ROC government believes that parallel representation in the UN and other multilateral international organizations will help foster mutual respect and goodwill between the two sides of the Taiwan strait and create an environment conducive to ending China's division through peaceful and democratic means.

#### **Central American Countries To Support UN Bid**

OW2207030595 Taipei CNA in English  
0116 GMT 22 Jul 95

[By Huang Kwang-chun and Y.C. Tsai]

[FBIS Transcribed Text] Guatemala City, July 20 (CNA) — The fourth foreign ministers' meeting of the mixed commission of cooperation between the Republic of China [ROC] and seven Central American countries on Thursday issued a joint statement reiterating the group's support for the ROC's bid to enter the United Nations.

The two-day meeting brought together ROC Foreign Affairs Minister Chien Fu, his counterparts from Costa Rica, El Salvador, Guatemala and Panama, vice foreign affairs ministers from Honduras and Nicaragua, and Belize's envoy to the United Nations to discuss matters of mutual concern as well as the current international situation.

The statement said that the seven Central American countries have a clear understanding of the significance and importance of the ROC's UN bid, and will continue to support that bid.

The countries at the mixed commission will enhance mutual relations and work for a common external policy on the basis of solidarity and mutual respect, it stressed.

Four members of the commission — Nicaragua, Costa Rica, Panama and Guatemala — were among 15 countries that presented a proposal urging the UN General Assembly to set up a special committee to study ways to admit the ROC to the world body this year.

UN representatives from the 15 countries wrote to UN Secretary-General Butrus Butrus-Ghali on July 18 asking him to include the proposal in the agenda of the 50th UN General Assembly, which is scheduled to open in September.

This is the third consecutive year that the proposal has been presented to the UN by the ROC's diplomatic allies. The UN rejected the proposal the previous two years.

The statement also noted that the ROC will offer the Central American countries technology transfers and enter into cooperative projects with them in a bid to help them enhance their economies on a global scale.

Cooperative projects proposed include an integration plan for information development and manpower resources, a training program for foreign-service personnel in the Central American region, an insect-control program for bananas, the strengthening of the Central American shipping committee, and a study on investment information.

Chien has pledged that the ROC Government will do its best to help promote the cooperative projects, according to the statement.

The seven ministers and representatives from Central America said they were happy with the ROC's plans to provide the region with expertise and financing in the area of small and medium-sized business development.

They also acknowledged the ROC's efforts in democratic and economic development, which they said benefited not only the ROC but also its allies, the statement pointed out.

Chien, who arrived here Monday for the meeting, left for Panama City for a visit following the conclusion of the gathering.



**Chien Fu Views Importance of Ties With Mexico**

OW2207031695 Taipei CNA in English  
0138 GMT 22 Jul 95

[By Huang Kwang-chun and Y.C. Tsai]

[FBIS Transcribed Text] Guatemala City, July 20 (CNA) — Republic of China [ROC] Foreign Affairs Minister Chien Fu said here Thursday that the ROC attaches importance to its relations with Mexico.

Chien made the statement during a press conference following the conclusion of a foreign ministers' meeting of the mixed commission of cooperation between the Republic of China and Central American countries in reply to a question raised by a Mexican reporter.

Noting that ROC Premier Lien Chan made a private visit to Mexico City last year and that both countries have exchanged trade offices, he said trade ties between the ROC and Mexico have been getting closer.

Mexico, though not a member of the mixed commission, has played an increasingly important role in the world economy since it entered into the North American Free Trade Agreement (NAFTA) with Canada and the United States in January 1994, he pointed out.

The mixed commission groups the ROC and seven Central American countries — Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Chien pledged that the ROC will continue to share its economic-development experiences with Central American countries, particularly in the field of small and medium-sized business development.

While expressing his gratitude to the Central American countries for their support of the ROC's bid to join the United Nations, he stressed that the ROC will continue to push its UN bid.

Chien, who arrived here Monday for the mixed commission meeting, left for Panama City for a visit following the conclusion of the gathering.

**Minister Arrives in Panama 20 Jul**

OW2207035295 Taipei CNA in English  
0145 GMT 22 Jul 95

[By K. C. Huang and Flor Wang]

[FBIS Transcribed Text] Panama City, July 20 (CNA) — Foreign Affairs Minister Chien Fu said here on Thursday that the reunification of China will come about only when democratic rule is adopted in Mainland China.

Chien made the remarks at a dinner party held in his honor by overseas Chinese living in Panama.

In addition to conveying greetings from President Li Teng-hui, Vice President Li Yuan-zu and Premier Lien Chan, Chien also lauded the performance of overseas Chinese in Panama, encouraging them to make greater contributions to their host country and to help build closer Taiwan-Panama ties.

In a bid to secure Taiwan's continued prosperity and freedom, the Republic of China [ROC] government is determined to play a more active role in the international community, Chien said, stressing that the strategy is by no means a way to create "two Chinas," or "one China and one Taiwan," as Beijing has argued.

A free and democratic Taiwan recognized by the international community not only will pave the way for the two sides to talk about reunification on an equal footing, but will also provide Mainland Chinese citizens with an example of an alternative political system they may want to consider should they become entitled to choose their own form of government, he emphasized.

Chien arrived in Panama City from Guatemala City after the conclusion of a ministerial-level mixed commission meeting there attended by the ROC and seven Central American countries.

In addition to visiting Panamanian President Ernesto Perez Balladares, Chien will also meet with his Panamanian counterpart, Gabriel Lewis Galindo, on Friday.

Discussions between Chien and Lewis will focus on ways to attract more Taiwan investment to Panama, as well as on the plan to turn Fort Davis, a former US Army base, into an export-processing zone.

The planned September visit to the ROC by Perez Balladares will also be discussed, sources here said.

Chien, who will travel to a tourist resort near the Pacific coast on Saturday and Sunday, is scheduled to depart for Taipei on Monday.

**Taiwan, Panama To Jointly Develop Trade Zone**

OW2407134095 Taipei CNA in English  
0859 GMT 24 Jul 95

[By Huang Kwang-chun and Y.C. Tsai]

[FBIS Transcribed Text] Panama City, July 23 (CNA) — The Republic of China [ROC] and Panama will join hands to develop an export processing zone in the central American country, the two countries' foreign affairs ministers said in a joint press conference here Sunday.

ROC Foreign Affairs Minister Chien Fu and his Panamanian counterpart Gabriel Lewis Galindo pointed out that an investment development company will be

formed to promote the cooperative project, with Panama offering land and the ROC providing funds.

Each country will own 50 percent of the joint venture, they noted.

The two countries signed a letter of intent on the joint development of an export processing zone in Panama in early July when Lewis visited Taipei.

According to the letter of intent, the planned export processing zone will occupy a 100-hectare site at Fort Davis, an American military base scheduled to be returned to Panama in September.

Chien said that six ROC experts will come to Panama early next month to help work out details for the project in accordance with a tentative timetable.

In late August, he pointed out, representatives of the two countries will meet in Taipei to work on the establishment of the proposed investment development company.

Both countries hope that an official cooperation agreement can be signed when Panamanian President Ernesto Perez Balladares visits Taipei in September, he stressed.

The tentative timetable for the project also calls for an ROC investment mission to visit Fort Davis in early September and the opening of an investment company in late September.

Those intending to open factories in the export processing zone are required to pay 30 percent of the factory construction costs as down payment between October and December.

Noting that construction of the project is scheduled to begin in November, Chien said the export processing zone could create about 20,000 job opportunities for the central American country.

The ROC Government will spare no effort to encourage Taiwan investors to make inroads into Panama, he pledged.

Chien, who earlier visited Guatemala City for a foreign ministers' meeting of the mixed commission of cooperation between the ROC and central American countries, is scheduled to return to Taipei on Thursday.

### **Insurance Leading Investment in Foreign Countries**

*OW2407132395 Taipei CNA in English  
0916 GMT 24 Jul 95*

[By Danielle Yang]

[FBIS Transcribed Text] Taipei, July 24 (CNA) — Taiwan invested US\$21 billion in the foreign insurance industry during the 1990-1994 period, according to a report released Monday by the Taiwan Institute for Economic Research.

The report said that investment in foreign insurance topped Taiwan's overseas investment during the five-year period, followed by investments in electronic and electric appliances, the chemical industry, textiles, international trade, and the service industry.

Beginning in 1990, Taiwan's overseas investment in the insurance industry increased dramatically, with annual investment topping US\$4 billion each year except for 1992, the report noted.

Most of the overseas investment went to the United States, Asia and Europe, the report said, adding that manufacturing industry investment has also been on the increase in recent years.

In 1994, the six foreign industries that absorbed the most Taiwan investment were insurance, electronic and electric appliances, international trade, service, foodstuffs and beverages, and textiles in that order.

The report said that Taiwan investment in developed countries aims to open markets and set up marketing footholds for local manufacturers. Most Taiwan investors forged mergers or strategic alliances with foreign enterprises to obtain high-technology know-how.

Investment in developing countries mainly focused on using Taiwan's manufacturing technology, materials, semi-finished products, and machinery to produce goods for the foreign market. Taiwan manufacturers generally made such overseas investments to avoid the worsening domestic investment climate, the report said.

Most overseas investments are made by Taiwan's small and medium enterprises, the report added.

### Hong Kong

#### Beijing, U.S. Urged To Settle Disputes Quickly

HK2207071695 Hong Kong EASTERN EXPRESS  
in English 22-23 Jul 95 p 40

[From the "Exchange Square" column, article by George Clinton: "China, U.S. Will Both Suffer in Long Run"]

[FBIS Transcribed Text] All signs point to a continued slide in Sino-United States relations. The arrest of dissident Harry Wu and the US reaction to it are merely symptomatic of a perceived need by the US to gain leverage on China.

What seems to be in store is a case of mutually assured damage, unless one or both compromise. It will be difficult for both sides to come through the latest bout of strained relations unscathed in their present hard-headed state.

From the US side, President Bill Clinton has a problem in the Republican Congress, many of whom are still tainted from the Cold War days and see the Chinese threat akin to that of the red peril from the former Soviet bloc.

What is behind US foreign policy towards China is the use of economic and political leverage to prize open the Chinese market, before it gets eaten up by a one-sided dependence on it. The trade deficit with Japan affords ample warning to the US of what it must achieve, and quickly, before that trade imbalance is surpassed by one even bigger at the hands of China. No matter how hard China tries to curry favour with the Europeans, and develop trade ties with its Asian neighbours, the US still absorbs one-third of the mainland's exports.

As the heat increases with China, it is no small surprise that the US has chosen this time to resume full diplomatic relations with Vietnam, as it needs to build a strong base of support in the region, given the potential for future antagonism with China as it comes to maturity as a nation.

The US must also realise that the best way to change a society is through interaction, or so said the US administration in the most-favoured nation debates. But where the situation for US business has become treacherous is the way in which the political dispute has veered into the commercial arena. The trouble is in deciphering the threats from actions.

Last year, the US car giant, Chrysler, was slated to be the front runner in setting up a joint-venture minivan plant in southern China. But seemingly out of the blue the contract went to Daimler-Benz and the US was in little doubt as to the reason: retribution. The US had let the Taiwan President Li Teng-hui visit the US in

May. The US Greiner corporation lost out on a deal to supply avionics equipment to the mainland because Beijing disapproved of US policy to China.

Since China's post-Tiananmen rehabilitation in the world community, the US has yet to formulate a coherent policy to deal the nation. Policy in the Clinton era has been littered with heavy-handed moves and headline-grabbing gestures, rather than behind-the-scenes diplomacy. Human rights have been at the forefront of US protests that have aggravated China, given the mainland's refusal to accept that it is nobody's business but its own.

But there is now another forum for China to redress its grievances on the trade front. Although the US balked at China's attempt to join the World Trade Organisation, China is in, albeit with observer status, and can take succour from the fact that it can, to some extent, shield itself from the bullying tactics of the US through the auspices of the WTO.

Both sides must come to terms quickly for their own benefit, or both will suffer.

#### Western Leniency With Beijing Criticized

HK2207070295 Hong Kong EASTERN EXPRESS  
in English 22-23 Jul 95 p 14

[Editorial: "Deaf Ear Will Be Turned to Congress Bill"]

[FBIS Transcribed Text] The bill passed by the United States Congress on Thursday to condemn China's human rights record was well-timed to inform the Beijing leadership of the anger of US citizens, while the former is in a belligerent mood towards Taiwan. But the legislation is unlikely to bring Beijing to its senses or persuade it to stop arresting dissidents and release more of those detained.

The Congress decided not to revoke China's most favoured nation trading status (MFN), which can only lead Beijing to believe that the United States has shot its bolt. The establishment of Radio Free China seems superfluous, as the function of promoting peaceful evolution in China has been performed by the Voice of America for a long time with success.

The legislation also requires the US President to press Beijing to release the Chinese-American human rights activist, Harry Wu. This may not be too difficult as the Secretary of State, Warren Christopher, will plead Wu's case strongly to his Chinese counterpart Qian Qichen.

The bill seems rather more ambitious in demanding that the US government persuade Beijing to make drastic changes to its domestic and foreign policy, including the dismantling of the labour camp system, and its coercive



policy on birth control, and the granting of religious freedom to the people of Tibet.

Given the weakness and indecisiveness of the Clinton administration, it is hard to expect the US government to formulate a China policy that would be effective in forcing Beijing to make these changes. Without any concrete action in the form of sanctions, Beijing will continue to turn a deaf ear to the US Congress.

The Hong Kong Government and local business circles once again, out of selfish interests, "welcomed" the decision by the House of Representatives not to revoke China's MFN status.

Faced with a number of trade contracts worth US\$3bn (HK\$23.4bn), offered by the Communist Party General Secretary, Jiang Zemin, in Bonn last week, the German Chancellor, Helmut Kohl, turned a blind eye to the issue of China's human rights, saying it was a matter of China's internal policy.

Beijing will never learn to treat its people in a civilised manner as human beings if the West is unable to curb its lust for the perceived benefits of a lucrative China market.

#### **Beijing Unhappy With British List of Assets**

*HK2207070895 Hong Kong EASTERN EXPRESS in English 22-23 Jul 95 p 1*

[By Rain Ren in Beijing]

[FBIS Transcribed Text] China demanded yesterday that Britain pass on a complete list of the Hong Kong Government's assets soon and discuss with Beijing how they should be handed over.

At a meeting in Beijing yesterday, the economic subgroup of the Beijing-appointed Preliminary Working Committee [PWC] complained that the report on Government properties that had been passed on to the Chinese side of the Joint Liaison Group [JLG] was "not the whole thing" "We believe that assets which belong to the Hong Kong Government include a lot of things. The property is only one part of it," Nellie Fong, the subgroup leader, said. "The group considers the handover of all the Government assets as one of the most important issues regarding Hong Kong's transition."

A source close to the PWC said that China was not satisfied with the assets list provided by Britain as it only included fixed assets such as Government properties. "The Chinese want more than that. They want to know how much liquid assets the Hong Kong Government has, including investment in stocks and shares, the details of the Government's other investment projects," he said.

Fong said that since it was a matter for the JLG, it would be inappropriate for the PWC to demand any information from the Hong Kong Government or make any proposals. But according to Fong, Britain provided China with a 600-page report on items of Government property earlier this year.

The group also proposed that a mechanism should be established after 1997 to coordinate economy, trade and finance between Hong Kong and China.

#### **China Rejects Proposal To Hold Elections in 1996**

*HK2507063395 Hong Kong SOUTH CHINA MORNING POST in English 25 Jul 95 p 2*

[By No Kwai-Yan in Beijing: "Poll in 1996 'Unworkable'"]

[FBIS Transcribed Text] China has rejected a proposal to hold an election next year for the legislature which it will put in place in 1997 according to Liberal Party delegates visiting Beijing.

Headed by chairman Allen Lee Peng-fei, the delegation raised the idea at a meeting with officials of the Hong Kong and Macao Affairs Office yesterday. Mr Lee quoted deputy director Chen Ziyang as saying there were technical difficulties which made the idea unworkable. "Mr Chen does not think it is possible to have such an election under British rule and, moreover, amendments of the election law are needed," he said.

Mr Chen said the elected legislature would be disbanded in 1997 and replaced with a provisional body.

#### **Reportage Covers PWC Economic Panel Meeting**

##### **Meeting Held in Beijing**

*OW2207124995 Beijing XINHUA in English 1211 GMT 22 Jul 95*

[FBIS Transcribed Text] Beijing, July 22 (XINHUA) — The Preliminary Working Committee's (PWC) Economic Subgroup of the Preparatory Committee for the Hong Kong Special Administrative Region held its 17th meeting here from July 21 to 22.

On Friday [21 July] the members of the Subgroup discussed the collection of opinions on the report delivered by the Subgroup to the fifth PWC plenary session and on policies over trade and financial relations between the mainland and Hong Kong after 1997.

After the Ninth and Thirteenth meetings of the Subgroup, the members held discussions on occasions on the basic principles and policies over trade and financial relations between the mainland and Hong Kong after 1997.

They put forward many revisions on this topic and agreed that their research on the basic principles and policies over trade and financial relations between the mainland and Hong Kong, with further revision, will be mature enough to be submitted to the Preparatory Committee and relevant departments as proposals from PWC.

The members also discussed the property of the Hong Kong government and the way to transfer the property, saying that transfer of government property is an essential and important part of power transfer in 1997. Thus, they suggested the Sino-British Joint Liaison Group discuss this as soon as possible.

Today, the members discussed the arrangements of the Subgroup's work in the second half of the year which were outlined at the fifth PWC plenary session.

After exchanging opinions on a plan of the British Hong Kong authorities concerning privately run accumulation funds, the members said that the issue must be discussed by the Sino-British Joint Liaison Group before legislation, for the plan will primarily be implemented after 1997 and will be of far-reaching significance for the government and residents of the Hong Kong Special Administrative Region (SAR).

#### Trade, Finance Urged

HK2207054095 Hong Kong HONGKONG  
STANDARD in English 22 Jul 95 p 4

[By M Y Sung in Beijing]

[FBIS Transcribed Text] The Preliminary Working Committee yesterday recommended a way of coordinating trade and finance systems between Hong Kong and China after 1997. The committee's economic sub-group, which met for two days here, made the suggestion in reports prepared for the Preparatory Committee — a body setting up the post-1997 Special Administrative Region government.

PWC economic sub-group convenor for China, Gao Shangquan, divided the reports recommendations into three parts:

- Key principles for trade, economic and financial relations between the two sides.
- Finding a way of coordinating policy and relevant questions between the two governments.
- Hong Kong's status in bilateral and multi-lateral relations under the one country, two systems principle.

Mr Gao, who is also Vice-Minister of the State Commission for Restructuring the Economy, said the recommendations came from former discussions. The sugges-

tions were reached in sub-group discussions and at two seminars — one on trade and the economy last November and one on finance in May.

"We unanimously agree that the study of the basic principles and policies of cross-border trade, economic and financial relations have matured enough. We suggest revising the report into formal recommendations of the PWC for the submission to the preparatory committee and relevant departments," Mr Gao said.

The key principles of the two reports for post-1997 development of trade, economy and finance are in line with the Basic Law and the Sino-British Joint Declaration. Hong Kong, under the high degree of autonomy principle, will maintain its own legal and financial systems. The reports clearly state the territory's status as an economic trade region, independent of China.

The reports also recommend the territory's capitalist policy is maintained. Hong Kong investment in the mainland will be treated and handled as foreign investment. And mainland enterprises in Hong Kong will abide by Hong Kong laws. They will be monitored by the SAR government in accordance with the territory's law.

The sub-group's local convenor, Nellie Fong Wong Kutman, said a co-ordination mechanism was necessary because Beijing should not interfere with Hong Kong's economic and financial systems, but should be closely related to it.

#### Further Media Coverage of Appeals Court Bill

##### Efforts To Ensure Passage

HK2507063095 Hong Kong SOUTH CHINA  
MORNING POST in English 25 Jul 95 p 2

[By Chris Yeung: "Final Push On Court"]

[FBIS Transcribed Text] Officials have stepped up last-ditch lobbying efforts to ensure the Court of Final Appeal Bill survives tomorrow's Legislative Council debate. And this morning, senior officials will brief Governor Chris Patten and his top aides at the Executive Council on the latest assessment of Legco support for the bill.

A senior government source said last night Mr Patten was "a bit worried" as the situation was "looking fluid". And senior officials were not sure the bill would be passed. "We are watching closely the delegation of the Liberal Party in Beijing. Obviously the Liberals hold the key," the source said, adding that intense lobbying would continue in order to ensure the bill's safe passage.

In a letter addressed to Simon Ip Sik-on, chairman of the committee on the CFA bill, and sent to all members yesterday, Attorney-General Jeremy Mathews said "none of the amendments to be moved by non-official members of the council should be supported". He warned that the passage of any one of three major amendments would "wreck the arrangements for the creation of a proper" court. These amendments related to the court's commencement date, jurisdiction and limitations on the number of overseas judges. Mr Mathews said the administration would move 13 amendments, all relatively minor and technical.

The Law Society and a pro-China group also joined calls for legislators to approve the bill. In an open letter to council members, Law Society president Roderick Woo Bun said enactment of the bill would boost public confidence in the rule of law. In spite of a preference for greater flexibility over the number of overseas judges, Mr Woo said the Law Society was satisfied the bill was consistent with the Joint Declaration and the Basic Law.

Public interest demanded the issue be settled and work for the establishment of the court start immediately. Argument about the definition of "acts of state" was "technically irrelevant", because no amendment could change the Basic Law provision which said the future Special Administration Region "shall have no jurisdiction over acts of state", he said. The bill should not be rejected because it would only start functioning on July 1 1997. Neither the Joint Declaration nor the Basic Law envisaged the court being set up before the change of sovereignty, Mr Woo said.

The pro-China Federation for the Stability of Hong Kong said legislators should not politicise the issue. A resolution on the court would facilitate the restoration of greater co-operation between Britain and China over transitional arrangements, it said.

#### Editorial Views Bill

HK2207071495 *Hong Kong SOUTH CHINA MORNING POST in English* 22 Jul 95 p 14

[Editorial: "Bill's Critics Wrong"]

[FBIS Transcribed Text] Legislators have a crucial decision to make next Wednesday, the most important they can face. Their vote will be critical in deciding how calm the transition to Chinese rule will be. And it is one which will determine the future of the rule of law in Hong Kong, the factor which underpins all commercial, personal and political rights and freedoms. The decision is the Legco [Legislative Council] vote on the Court of Final Appeal [CFA] bill.

As the bill is concerned with such vital principal, some may call it blackmail to consider the political repercussions of the vote. Yet experience shows the reality is that if legislators significantly amend the bill, the product of a painfully negotiated Sino-British agreement, Beijing is sure to throw another tantrum. Relations will revert to an icy state; there will be no hope of reaching agreement on other issues.

That would not justify accepting a rotten agreement. If the CFA bill actually threatened the rule of law, it would have to be rejected, regardless of the consequences. Yet, despite their frantic efforts, Democratic Party Chairman Martin Lee Chu-ming and fellow critics have failed to prove that the bill undermines the rule of law.

No one can pretend that the terms under which the CFA is to be set up are ideal. Many see the limit on the number of foreign judges as deeply troubling. Even Governor Chris Patten admits that he wanted to see the court running next year, rather than waiting until after the handover. And exempting "acts of state such as defence and foreign affairs" from its jurisdiction would offer wide scope for abuse, if the Special Administrative Region Government were to interpret too broadly this loosely worded phrase.

Mr Lee is right to draw attention to the danger the phrase poses to the common law understanding of the jurisdiction of a superior court. But he goes further: he argues that incorporating this phrase into the CFA bill creates the problem. Here, he is simply wrong.

#### Important Precedent

The problem flows from neither the bill nor the recent Sino-British agreement, on which it is based. It dates back to the Joint Declaration, which foreshadowed a written constitution for post-1997 Hong Kong — the Basic Law — and recognized the Basic Law's pre-eminence over the common law and existing Hong Kong Law. The wording of which Mr Lee complains is contained in Article 19 of the Basic Law and so will apply, come 1997, regardless of whether it is contained in the CFA bill and no matter how legislators vote on Wednesday.

A fair assessment of the CFA bill would be that its shortcomings are outweighed by its benefits. Only a few months ago agreement seemed impossible: it is an achievement that Beijing realized an accord was needed, especially one which recognizes the Legislative Council's role and (although China disputes this) may set a precedent for adaptation of other laws.



### Enhance Independence

Passage of the unamended bill will avert any danger of a legal vacuum, one that would leave Hong Kong lacking a final avenue of appeal for a year or more. It will also enhance the independence of the court by making it clear that the future Chief Executive will play no part in nominating judges, once the first chief justice has been chosen.

Most importantly, it will provide some degree of guarantee that the rule of law should survive the handover relatively unscathed, by setting out the precise framework under which justice, in its final form, will be dispensed. Since renegotiation is not an option and since China will view any substantive amendments as breaching the accord, the onus must be on those legislators who move amendments on Wednesday to explain what they believe to be the better alternative to accepting the terms of the agreement. A few years ago, they might have convincingly argued for unilaterally establishing the court and relying on public and international pressure to prevent Beijing dismantling it later. But since the political reform row has shown China is serious about its threats to dissolve any bodies established without their agreement, that is no longer a realistic option.

Those who vote to reject or amend the CFA bill will be supporting the establishment of an interim court, one that can last no longer than a year before being disbanded with all the chaos that would cause. They will be supporting a court which will be replaced by a new body not subject to any of the guarantees this agreement provides. It is hard to see how rejecting the CFA bill would be in the interests of the rule of law; those who vote to do so on Wednesday will owe an explanation to the people of Hong Kong.

### Right of Abode Proposal in Breach of Basic Law

HK2407052495 Hong Kong EASTERN EXPRESS  
in English 24 Jul 95 p 2

[By Rain ren in Beijing]

[FBIS Transcribed Text] Britain has been accused of distorting the Basic Law over its proposal to guarantee right of abode in Hong Kong to foreign passport holders if they return to the territory after the 1997 handover.

The Preliminary Working Committee group on nationality affairs said the Basic Law does not offer unconditional permanent resident status to non-Chinese.

The group has proposed that Hong Kong-Chinese who have emigrated should lose their right of abode if they return to Hong Kong after July 1, 1997. They can regain it after another seven years of residence in the

territory. But if they come back before the handover, their permanent resident status will be secured.

Rita Fan, the group's leader, said yesterday: "We know from press reports that Britain had, in principle, accepted the group's suggestion two months ago. "But now it has suddenly altered its position and gone back on its words."

It is understood that Britain proposed to the Chinese at the Joint Liaison Group meeting earlier this month that Hong Kong-Chinese who have obtained foreign passports should still enjoy their right of abode in Hong Kong no matter when they return. But the PWC group argued that such a proposal was in breach of the Basic Law. The Basic Law stipulates that persons not of Chinese nationality can become Hong Kong permanent residents if they have entered the territory with valid travel documents, have ordinarily resided here for a continuous period of not less than seven years and have taken Hong Kong as their place of permanent residence before or after the 1997 handover.

Since China does not recognise dual nationality, those Hong Kong-Chinese who have obtained foreign passports will no longer be considered Chinese. Therefore, if they want to become permanent residents, they need to meet certain requirements set out in the Basic Law.

### Disciplinary Forces Welcomed To Stay After '97

HK2507072495 Hong Kong EASTERN EXPRESS  
in English 25 Jul 95 p 2

[By Rain Ren in Beijing: "Discipline Forces Vow Over 1997"]

[FBIS Transcribed Text] Civil servants in Hong Kong's disciplinary forces will be welcome to stay in service after the 1997 handover regardless of whether they have gained British citizenship through the British Nationality (Selection) Scheme, the Preliminary Working Committee said yesterday.

Those who have obtained full British nationality through the scheme "will not be discriminated against" after the handover, Rita Fan, the leader of the PWC subgroup on social issues, said.

The subgroup said that the special administration region government would not "settle the accounts" with those people. Their seniority, pay, allowances, and conditions of service would be "no less favourable" than they are at present, it said. In Hong Kong, the disciplinary forces include police officers, firemen, immigration officers, customs officers and correctional services personnel.

"The group also agreed that the mainland troops in Hong Kong should not interfere with the disciplinary

force's work. This is to ensure social stability during the time when Hong Kong reverts to the Chinese rule," Fan said. The group blamed the Hong Kong Government for altering the existing Hong Kong laws following the implementation of the Bill of Rights. The Bill of Rights presented considerable difficulties to the effective operation of the disciplinary forces, Fan said.

#### **Committee To Oversee 1997 Handover Celebrations**

*HK2407045295 Hong Kong EASTERN EXPRESS  
in English 24 Jul 95 p 1*

[By Bruce Gilley]

[FBIS Transcribed Text] The Hong Kong Government should pay for all 1997 handover celebrations, according to the Preliminary Working Committee's cultural group.

Wu Jianfan, the group's mainland leader, said since the activities would be held in Hong Kong, it was reasonable for the Government to provide funding from its 1997-1998 budget.

To mark the handover, the PWC cultural group suggested a committee be established early next year to organise and coordinate various non-governmental activities in the territory. It believes the committee, to be composed of Hong Kong people, should be under the leadership and guidance of the preparatory committee.

The theme of the activities should be "patriotism, unity, stability and prosperity", Wu said. "They should also reflect the patriotic and national sentiments, and brotherly feeling of all the Chinese people, including patriots in Hong Kong, towards the territory's return to China."

Although arrangement for the activities have yet to be worked out, Wu said pop concerts, exhibitions, commemorative stamps, gold coins, lamp and flower decorations and firework displays should be included. The PWC cultural group also recommended that a monument be erected in the centre of Hong Kong with the foundation stone laying ceremony on July 1, 1997. The group said a large sum of money would be needed for those activities and public donations would be another source of funding.

Last night a Government spokesman gave a guarded response to the group's proposal. "I am not sure that the tax payers would respond very favorably to that," he said, adding that the preparatory committee fell outside the Hong Kong Government's jurisdiction. "The committee . . . is established by the Chinese government." He said that non-representatives of the two governments should be exploring sources of funding other than from the Hong Kong Government. "As far as the handover ceremonies are concerned, we have agreed with the Chi-

nese side at the last Joint Liaison Group meeting to begin discussions on them," he said.

#### **Government To Propose Localizing 'Secrets Act'**

*HK2507072395 Hong Kong EASTERN EXPRESS  
in English 25 Jul 95 p2*

[By Wing Key Po: "Localisation Of Secrets Act Planned"]

[FBIS Transcribed Text] In an attempt to preempt the future special administrative region (SAR) government making draconian laws to prevent offences like subversion and theft of state secrets, the Government will propose a localisation of the Official Secrets Act.

The announcement will be part of the Government's report to the Legislative Council information policy panel today on the progress of the government's review of laws that infringe press freedom. Currently, the British Official Secrets Act of 1989, which replaced the 1911 and 1920 acts, is being applied to Hong Kong. Since it is a British act, it will lapse if it is not localised before the 1997 handover and be replaced by a law enacted by the SAR under Article 23 of the post-1997 Basic Law.

Article 23 gives the SAR government wide powers to enact laws to "prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets". Government officials said the "general intention" of the changes will be to liberalise the laws in comparison to other countries. "All countries have an official secret act of some description, some are more draconian and less liberal than others.

"We never made any secret of our intention to go by the principle that we should be doing all we can to remove or otherwise modernise the old colonial relics rattling around on the statute book," a senior Government official said yesterday. The official said the move has been taken to guard against potential abuse by the future sovereign. "The subtext to it all has been pressure from the liberal community, the media, the commentators, human rights activists and all those others who fear that while you have a community here, you might feel relatively comfortable that a British administration won't do anything particularly repressive or unpleasant but if so would find itself in hot water, not least being drowned in court challenges. "But the situation after 1997 may not be quite so comfortable and even those who believe it might never happen would in any case like a buffer zone and an insurance policy."

China has recently objected to changes to the Societies Ordinance, the Public Order Ordinance and the scrapping of the emergency regulations, saying these violate

the Basic Law. The official said China would have a veto on the proposals "up to a point". The chairman of the Legislative Council's information policy panel, Emily Lau, said she would welcome the localisation of the act as otherwise the act would lapse and allow China to enact laws on their own.

**International Groups Status in Doubt After '97**  
*HK2507072695 Hong Kong EASTERN EXPRESS in English 25 Jul 95 p 2*

[By Rain Ren in Beijing: "Taiwan Taint Warning"]

[FBIS Transcribed Text] Hong Kong may be forced to withdraw from a number of international nongovernmental bodies after the 1997 handover as long as Taiwan, under the name of the Republic of China, remains a member, the Beijing appointed Preliminary Working Committee proposed yesterday.

The PWC cultural subgroup made the proposal on the basis of maintaining a "one-China policy" that bars Taiwan from using the name of China in any international organisations.

The policy, to be applied to Hong Kong after 1997, was announced by China's Vice Premier, Qian Qichen, last month. The policy states that matters related to sovereignty and cross-strait relations should be handled by the Beijing government or the special administrative region government under Beijing's "guidance".

Qian particularly warned Taiwan not to attempt to "create" two Chinas or "one China and one Taiwan" in Hong Kong. The subgroup leader, Raymond Wu, said there are about 1,000 non-governmental organisations in Hong Kong which are now members of international organisations or conferences. "Some of them include China, Hong Kong and Taiwan as members. Others only have China and Hong Kong, or Taiwan and Hong Kong as members," Wu said.

"Some international organisations themselves do not require state membership but Taiwan has joined them in the name of the Republic of China or Taiwan," Wu said. "Hong Kong's non-governmental organisations will have to withdraw from the international organisations and conferences if Taiwan is the member in the name of Republic of China or Taiwan," Wu said.

The Hong Kong Medical Association is a member of the World Medical Association but Taiwan, as its founding member, joined it in the name of Republic of China, Wu said. The chairman of the Hong Kong Medical Association, Wu Waiyung, also a member of the PWC, had earlier said that the association would withdraw from the World Medical Association after 1997 because of Taiwan's membership.

**Hong Kong To Revise Endangered Species List**  
*OW2107134795 Beijing XINHUA in English 1232 GMT 21 Jul 95*

[FBIS Transcribed Text] Hong Kong, July 21 (XINHUA) — A number of amendments have been made to the Animals and Plants Ordinance (Protection of Endangered Species) to revise the list of species, an Agriculture and Fisheries Department spokesman said here today.

Among the species newly added to the control list are hippopotamus, saiga antelope and agar wood which are traded in Hong Kong.

The spokesman said that with immediate effect, the import and export of species added to the list will be subject to licensing control.

Examples of other newly-listed species which might be of concern to Hong Kong include box turtles, all species of pangolin, Indian flap-shell turtle, tarantulas, emperor scorpions and Himalayan yew.

The spokesman said that the Endangered Species Advisory Committee with representatives drawn from the scientific community, the Chinese medicine trade and traders of animals and plants, had been consulted and they all supported the amendments.

He reminded the public that the maximum penalty for offenses under the Animals and Plants Ordinance is a 5 million HK dollar [641,000 US dollar] fine and two year's imprisonment.

**Number of Child Drug Traffickers on Increase**  
*OW2307072995 Beijing XINHUA in English 0652 GMT 23 Jul 95*

[FBIS Transcribed Text] Hong Kong, July 23 (XINHUA) — Forty-four children aged seven to 15 were arrested for drug trafficking in Hong Kong in the first quarter of this year, according to a Narcotics Bureau survey.

The figure, which mainly involves the trafficking of heroin, more than doubles the 21 arrests for the same period last year, and it is more than half the number recorded in the whole of 1994.

The Narcotics Bureau survey began in January and its half-year results are now being compiled.

An official said that three children in school uniforms were recently caught with 30 packets of heroin. The youngest was only 12.

He said that the arrests simply show that more kids are taking drugs.



Richard Tang, chief superintendent of the bureau, said that the survey has been quite useful for deploying resources to tackle the youth drug problem.

According to the survey, there were 183 traffickers aged 16-20 arrested in the first quarter of this year, compared with 161 for the same period in 1994.

In 1994, 81 children aged 7-15 and 733 aged 16-20 were arrested for drug trafficking in Hong Kong.

#### **Radar Station Contract Awarded to Airport**

*OW2307071395 Beijing XINHUA in English  
0646 GMT 23 Jul 95*

[FBIS Transcribed Text] Hong Kong, July 23 (XINHUA) — The Public Works Tender Board has approved the award of a contract for the construction of a radar station at Tai Lam Chung for Hong Kong's new airport at Chek Lap Kok.

The contract, valued at 10.9 million HK dollars (1.4 million US dollars), has been awarded by the Architectural Services Department to Progress Construction Limited of Hong Kong.

The contractor will be responsible for site formation works and the construction of a terminal Doppler Weather Radar station at Tai Lam Chung.

The radar station will be equipped with facilities to detect windshear conditions associated with rain showers or thunderstorms. Warnings will be communicated to the new airport for the attention of air traffic controllers and pilots.

The work will start early next month and be completed in the middle of 1996.

### **Macao**

#### **Supreme Court Head Holds Interview**

*HK2207071095 Hong Kong SOUTH CHINA  
MORNING POST (THE REVIEW) in English  
22 Jul 95 p 2*

[Report on interview with Macao Supreme Court President Dr. Amaro Farinha Ribeiro by Scott McKenzie; date, place not given: "Days of Judgment"]

[FBIS Transcribed Text] His barely concealed indignation at being questioned over rulings of courts within his jurisdiction was oddly coupled with conspiratorial grins and half smiles. On reflection, they were probably crocodile smiles.

Dr Amaro Farinha Ribeiro knows he is Macao's top judge, and it was more than a little obvious that he did not appreciate having his decisions questioned. He

is the president of the Portuguese enclave's Supreme Court and perhaps feels the title alone should earn him respect.

Well known for his right-wing political views, Dr Ribeiro arrived in Macao from Portugal in 1993 to become the first president of its Supreme Court giving formal autonomy to Macao's judicial system, which depended on Lisbon for appeal proceedings and other higher court decisions. Since then, he has won few friends among the more liberal lawyers in the enclave and at least three men are known to be more than a little indignant at being left in prison cells while Dr Ribeiro holidays in sunny Portugal.

The men, two of them from Hong Kong and the other from Malaysia, were to be extradited to China where they could be executed for crimes said to have been committed on the mainland. However, Lisbon's Constitutional Court this month ruled against the Macao Appeal Court's order to extradite the men and said such action would be unconstitutional. Whether or not the Lisbon decision is recognised will ultimately be up to the Supreme Court in Macao but rather than deliver a judgment which could have seen the men freed, they went on holiday until September 15.

Dr Ribeiro makes no bones about the decision to extradite. China has given guarantees to the Portuguese embassy in Beijing that they would not go before a firing squad — and that's good enough for him. Eleven of the 13 judges of Lisbon's Constitutional Court are apparently not satisfied with this guarantee or they would have ruled otherwise. However, Dr Ribeiro does not accept that this is not a judicial juggling act. Justice Macao-style is not necessarily justice Portuguese-style.

Reclining on a couch in a spacious office housed within a magnificent old Portuguese-designed administration office, he is determined to stand fast. He even says it is possible that the three men, Yeung Yuk-yeung, Lei Chan Wa and Malaysian Leong Chong-meng may stand trial in Macao. If the court returns from recess and decides to stand by the Constitutional Court's ruling, the Macao Instruction Criminal Court could ask China to provide evidence to prosecute the three in trials in Macao — an unprecedented occurrence.

Aware that such a trial could be seen as his doing, Dr Ribeiro was quick to say that he had no influence over the Instruction Criminal Court. "I would only become involved if the men were found guilty and then appealed," he said. "I have no authority over the other courts." What he doesn't say is that he is also the president of the judicial council which appoints judges in Macao.

On the other side of the Bar is the defence lawyer for all three men — the urbane Pedro Redinha who says that if such trials did take place and convictions were secured there would certainly be an appeal because the all important "reasonable doubt" so necessary to be overcome if a conviction were given, could never be removed. "Such a trial would mean we had to accept that China provided all the evidence with no omissions and that witnesses were genuine. The track record on justice in China is a poor one and, of course, there would be reasonable doubt so, of course, I would appeal if I still represented these men and, of course, I would appear before Dr Ribeiras and his fellow appeal judges," Mr Redinha said.

Depending on who you talk to, the scales of justice are more like a seesaw in a playground set up in China's backyard. The accused have all spent over a year in jail. Yeung is accused of murdering a woman in a mainland hotel, Leong is said to have been involved in a car smuggling ring and Lei was allegedly operating an "ice" — methylamphetamine — factory in Guangdong.

"Any cases in Macao should be dealt with in Macao and Portugal cannot do anything about it," Dr Ribeiras explained with conviction. "Only the Constitutional Court can decide on what is before it ... once China guarantees that these men will not die if they are extradited, I don't believe they will be (executed)" He is adamant that the Constitutional Court is not an appeal court and does not have authority over his court.

However, the judges in Lisbon appear to think the constitution should be holy ground and issued a brief statement through LUSA, the Portuguese news agency, that stressed their ruling. The statement came in response to claims by Dr Ribeiras that the Macao Supreme Court could still extradite the men to China.

"I don't know what the decision will be, it is something for when we resume after the court recess and it will be a decision that will become law." He also indicated that if the men were tried in China it would be up to the trial judge whether or not he accepted the evidence supplied by China. "If China did not supply the evidence there would be no trials and the men would go free."

Dr Ribeiras has struggled to avoid controversy since arriving in Macao and whether or not he remains in the enclave after the 1999 handover to China is not clear. What is clear are his political views for which he has become infamous. About two years ago, Dr Ribeiras was seen on local Macao television commenting that a benefit of war-time dictator Benito Mussolini ruling Italy had been that the trains had run on time. One Government insider stressed that the comment had been taken out of context and used repeatedly when

discussions about Dr Ribeiras took place. "Maybe he meant what he said, maybe he was joking, it doesn't matter because his words about Mussolini are what are always remembered."

In addition to the machinations of extradition decisions, Dr Ribeiras has found himself embroiled in a conflict with the local media. And Paulo Reis, the editor-in-chief of Macao's oldest Portuguese-language newspaper, GAZETA MACAENSE, has been on the receiving end of Dr Ribeiras's wrath. He was recently given a three-month suspended jail term and a \$34,000 fine for reprinting a Portuguese newspaper article critical of Dr Ribeiras. Mr Reis, through the campaigning defence lawyer Mr Redinha, has already lodged an appeal.

The catch to such an appeal is an odd one. It will be heard by a panel of judges appointed by Dr Ribeiras. "Of course I would not sit on the appeal, I would have to excuse myself," Dr Ribeiras said. He rejected notions that there could be a conflict of interests for judges appointed by him to rule on a matter in which their boss was the injured party.

The case stems from a re-printed article from the Lisbon-based weekly TAL E QUAL which reportedly belittled his career and mocked his right-wing political views. Mr Reis was sentenced on charges of abusing press freedom and with that sentence, strong feeling was aroused among members of Macao's tight-knit press community.

A Government source acknowledged that the ruling was one Macao could well have done without because of the message it sent China as a future ruler. "Of course there is self-censorship in Macao, as there is in Hong Kong ... certain stories are handled differently because of how China may react and yes, that is happening here," the source said. "At the same time, the Government would defend the right of Dr Ribeiras to defend himself through the law as any other citizen could." Dr Ribeiras agrees.

#### **Government Warns Against Vote-Buying Scheme**

HK2207054295 Hong Kong HONGKONG  
STANDARD in English 22 Jul 95 p 4

[By Harald Bruning in Macao]

[FBIS Transcribed Text] The Macao government has warned local residents against accepting cash in return for registering as voters. The warning was issued by the voter registration committee yesterday in the wake of several cases where residents were offered money for applying for electoral cards.

Macao's voter registration drive, which started on 26 June, ends on 31 July. Unlike in previous registration

exercises, long queues at most of the territory's seven electoral roll centres have been recorded since the beginning of this month. Some of the residents said they were doing so because of cash offers. A 21-year-old resident told *The Hongkong Standard* he had been offered 500 patacas by an uncle's friend if he would hand his electoral card to someone, complete with his telephone number and address. "I was told they would return the card to me before the legislative elections (in the autumn) of next year and then tell me who I must vote for," he said. Others said they had been paid between 100 and 1,000 patacas for registering.

Government sources said certain local business interests desperately trying to ensure their representatives make it to the legislature may be behind the scam. Legislators have expressed concern over what they said was illicit political manipulation.

Next year's legislative assembly polls will be the last under Portuguese rule. The legislature elected in the autumn of 1996 will straddle 1999 — the year Macao reverts to China's rule by one year. The polls are extremely important because those elected are supposed to be there beyond 1999, a legal adviser of one of the deputies said.

Of the 23 deputies to the legislative assembly, eight are directly elected by universal suffrage, eight indirectly elected by representatives of community, labour and business associations, while seven are appointed by the Governor.

#### **Foreign Trade Deficit Continues To Drop**

OW2107134295 Beijing XINHUA in English  
1233 GMT 21 Jul 95

[FBIS Transcribed Text] Macao, July 21 (XINHUA) — Macao's foreign trade deficit has kept dropping since

the beginning of the year, with the total for the first five months standing at 919 million patacas (about 113.8 million U.S. dollars).

Compared with the same period of last year, local exports went up by 10.2 percent, reaching 5.6 billion patacas (700 million U.S. dollars) making the trade deficit in this period down by 40 percent.

During the January-May period, exports of textile products and garments went up by 20.2 percent, accounting for 74.1 percent of Macao's total export volume. Macao's other major export commodities include non-textile products, such as electronic products and toys.

The United States still took the lead in absorbing Macao's export commodities, accounting for 39.8 percent, compared with 29.9 percent in the corresponding period of 1994. Those went to the European Union, including the new members of Sweden, Finland and Austria, rose by 2.7 percent, accounting for 29.7 percent of the local total exports.

Macao's imports, covering consumer goods, raw materials and semi-finished products, recorded a slight increase of 1.5 percent. Over 74 percent of local imports originated in the Asian-Pacific Region.



This is a U.S. Government publication produced by the Foreign Broadcast Information Service (FBIS). Its contents in no way represent the policies, views, or attitudes of the U.S. Government.

FBIS collects, translates, disseminates, and analyzes foreign open-source information on behalf of the U.S. Government. Its publications may contain copyrighted material. ***Copying and dissemination is prohibited without permission of the copyright owners.***

- Bracketed indicators before the first sentence of each item describe the way in which the material was processed by FBIS.
- Headlines and all bracketed explanatory notes are supplied by FBIS.
- Personal and place names are rendered in accordance with the decisions of the U.S. Board on Geographic Names as adapted by FBIS. Unverified names in radio and television material appear in parentheses and are spelled phonetically; words and phrases in parentheses preceded by a question mark are unclear in the original and deduced from context.

### **SUBSCRIPTION INFORMATION**

#### **U.S. Government Customers**

For a list of FBIS products, to subscribe to an FBIS publication, or to indicate a change of address contact:

FBIS  
P.O. Box 2604  
Washington, DC 20013-2604  
Telephone: (202) 338-6735  
FAX: (703) 733-6042

#### **Non-Government Customers**

Subscriptions are available from the National Technical Information Service:

NTIS  
5285 Port Royal Road  
Springfield, VA 22161  
Telephone: (703) 487-4630  
FAX: (703) 321-8547

New subscribers should expect a 30-day delay in receipt of the first issue.

**END OF**

**FICHE**

**DATE FILMED**

26 July 95

